# ALLEGANY COUNTY COMMISSIONERS

# DEPARTMENT OF EMERGENCY SERVICES

# CONSULTING REPORT

# INTERNAL CONTROLS

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**ALLEGANY COUNTY COMMISSIONERS**
**DEPARTMENT OF EMERGENCY SERVICES**

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Board of Commissioners of Allegany County
Department of Emergency Services
Cumberland, Maryland

We are pleased to have the opportunity to assist you by offering recommendations to help improve the financial accountability for volunteer fire and emergency medical service organizations within Allegany County, Maryland. In performing our procedures, we identified existing accounting procedures utilized by each organization, including bookkeeping methodology, handling of income and expenditures and internal cash controls.

Our procedures included interviewing each of the 27 organizations' management by written questionnaires and then in person to determine the flow of accounting information and controls placed in operation. The scope of our engagement did not include testing the operating effectiveness of such controls.

Our engagement was not designed to express an opinion on the internal controls of the volunteer fire and emergency medical service organizations within Allegany County, Maryland, and we do not express such an opinion. As you know because of inherent limitations of any internal control system, errors or fraud may occur and not be prevented or detected by internal controls. However, we noted certain areas for which we believe internal control could be improved. Our observations and recommendations are summarized in the attached appendixes.

Turnbull, Hoover & Kahl, P.A.

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Cumberland, Maryland

**Appendix A**
**Recommendations**

Internal control is probably an organization's most important deterrent to fraud. Strong internal control can prevent or timely detect most types of misappropriations of assets. Early detection is in itself a means of preventing fraud. Employees or volunteers who believe they will be caught may think twice when they are tempted to steal. Conversely, internal control weaknesses may allow fraud to occur and remain undetected.

Internal control is a system or plan of accounting and financial organization within an entity that comprises all the methods and measures necessary for safeguarding of its assets, checking the accuracy of its accounting data or otherwise substantiating financial information, and policing adopted rules, procedures, and policies as to its compliance and effectiveness.

Effective internal control might be described as follows:

- Effective internal control over financial reporting exists if the officers and trustees have reasonable assurance that financial reports are prepared reliably.
- Effective internal control over safeguarding of assets exists if the officers and trustees have a reasonable assurance that material unauthorized acquisition, use, or disposition of assets is being prevented or detected on a timely basis.

Internal control consists of five interrelated components:

- Control Environment-Sets the tone of an organization, influencing the integrity & ethical values of its people.
- Risk Assessment-Identification and analysis of risks an entity encounters. Because economic, industry, regulatory and operating conditions will change, mechanisms are needed to identify and deal with the special risks associated with change.
- Control Activities-Policies and procedures that help ensure the organization's directives are carried out. They include approvals, authorizations, verifications, reconciliations, reviews of performance, security of assets and segregation of duties.
- Information and Communication-Important information must be identified and communicated in a timely manner. Information systems should produce reports, containing financial information which makes it possible to control the organization. Additionally, all volunteers should receive a clear message that control responsibilities must be taken seriously.
- Monitoring-Internal control systems should be monitored-a process that assesses the quality of the system's performance over time. Officers and trustees should evaluate the system on a regular basis.

**Appendix A**
**Recommendations**

**Segregation of Duties**

Segregation of duties is critical to effective internal control; it reduces the risk of both erroneous and inappropriate actions. In general, the approval function, the accounting/reconciling function, and the asset custody function should be separated among employees/volunteers. When these functions cannot be separated, a detailed supervisory review of related activities is required as a compensating control activity. Segregation of duties is a deterrent to fraud because it requires collusion with another person to perpetrate a fraudulent act.

No one person should:
- Initiate a transaction
- Approve a transaction
- Record a transaction
- Reconcile balances
- Handle assets
- Review reports

Specific examples of segregation of duties are as follows:

- The person who requisitions/orders the purchase of goods or services should not be the person who approves the purchase.
- The person who approves the purchase of goods or services should not be the person who reconciles the monthly financial reports.
- The person who approves the purchase of goods or services should not be able to obtain custody of checks.
- The person who maintains and reconciles the accounting records should not be able to obtain custody of checks.
- The person who opens the mail and prepares a listing of checks received should not be the person who makes the deposit.
- The person who opens the mail and prepares a listing of checks received should not be the person who maintains the accounting records.

Fire departments have experienced several very sizeable losses over the years. Often the loss or theft is made possible by a lack of proper attention to procedures for handling and accounting for monies. It is the responsibility of the officers and trustees of each fire and EMS department to ensure that prudent procedures for handling all funds (grants, donations, fundraising, etc.) are followed every day of the week. Adherence to reasonable procedures discourages loss, helps spot losses early, and can be of assistance in determining the exact amount of any loss should an issue arise.

Internal control procedures set a standard for reasonable conduct and failure to meet this standard may be considered negligence. No one should automatically assume that the individual handling the money and the accounting records is doing a proper job. The organization's officers must be active and aggressive in ensuring procedures are being followed.

**Appendix A**
**Recommendations**

Accurate record keeping is important and the organization should encourage checking and re-checking of work.

Opportunity for disaster arises when entities have informal procedures, shortcuts, lack of ongoing contact and supervision of volunteers, and a false sense of security stemming from a history with an individual.

Attached is a policy guide to assist organizations in their daily operations.

**Appendix A**
**Recommendations**

## RECEIPT OF FUNDS

RISKS

Each organization faces the risk that funds they receive may be stolen or lost or that someone may be falsely accused of stealing funds.

POLICY

All funds, whether cash or check, which the organization receives will be deposited intact into the bank account, with no monies removed to make payments or for other purposes. All cash receipts should be deposited into the bank as soon as possible. This allows for a complete accounting and independent verification of what happens to the funds.

PROCEDURES

1. *Receipt of Checks in the Office or Post Office Box.* The Secretary opens all mail addressed to the organization. The Secretary makes a photocopy of all checks received and provides the photocopies to the Treasurer. This allows the Treasurer to verify that all checks received are deposited.

   The Secretary will endorse all checks by an endorsement stamp that provides that the check is "For Deposit Only" and will be paid to the order of the corporate bank and lists the organization's name and account number. This lessens the risk that at check may be stolen and cashed.

2. *Receipt of Cash in the Office.* Cash must be handled carefully. If cash comes into the office, the person accepting the cash must provide a written receipt when taking the cash:

   - The receipt should state the person's name, the date, the amount of the cash and the purpose of the payment.
   - Use a pre-numbered receipt book with automatic duplicate copy.
   - No pages may be removed from the receipt book.
   - The person with access to the receipt book shall keep it in a locked drawer and shall lock cash in a secured location until the Secretary can retrieve it.
   - If possible, when the Secretary opens the location with the cash, one other person will accompany the Secretary so that they can count the cash together.

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**Recommendations**

## RECEIPT OF FUNDS (continued)

The Treasurer will compare the receipt book and the bank's list of cash deposits when making the Bank Reconciliation described later.

3. *Deposit Slips.* The Financial Secretary will deposit corporate funds as follows:

   - Prepare a deposit slip in duplicate.
   - Photocopy the checks and staple the photocopies of the checks to the copy of the deposit ticket that the organization keeps.
   - If cash will be included in the deposit, the Financial Secretary will attach a list to the duplicate deposit ticket which includes the sources of the cash and the receipt #s in the duplicate receipt book for each source of cash.
   - Forward these to the Treasurer.

The Treasurer will consult the deposit ticket and attached photocopies when making the Bank Reconciliation described later.

4. *Bank Deposit.* If cash is present, a second person (if available) shall verify the funds prior to the Financial Secretary sealing the envelope and making the deposit in person. The person verifying the cash shall initial the cash on the copy of the deposit slip retained by the organization.

5. *Receipt of Checks and Cash Outside the Office.* If checks and/or cash come in outside the office (such as at a fundraising event), special precautions need to be taken to protect these receipts and to ensure that no one is falsely accused of stealing funds.

   - Two people need to prepare the deposit slip for the funds in duplicate.
   - Both must count the cash and initial the cash count on the copy of the duplicate deposit slip kept by the organization.
   - If the individuals accepting the contributions at the event know the names of the individuals making gifts in cash, they will provide a receipt using the pre-numbered receipt book. If the funds are received through a "pass the hat" style collection in which it is not possible to know who gave what amount, the individuals accepting the contributions will note that no receipts were provided to donors on the duplicate deposit slip.
   - It is not necessary to write out a receipt for contributions made by check unless the donor requests a receipt. However, the individuals accepting the contributions should make a list of all checks received at the event, including the name of the donor and the amount of the contribution. They will compare this list to the deposit to be sure all checks have been included in the deposit.
   - If no cash is received at the event, the individuals accepting the contributions by check will give the Secretary the list and the checks within 24 hours of the event.

**RECEIPT OF FUNDS (continued)**

- If there is cash in the deposit, one of the two individuals accepting contributions must deposit the funds immediately.

6. *Outside Billing Service.* If the organization uses an outside billing service to collect funds, a reconciliation should be prepared of the revenues received to the services performed. The number, and type of calls billed by the outside billing service should be compared to the run sheets maintained by the fire department.

**Appendix A**
**Recommendations**

## DISBURSEMENT OF FUNDS/USE OF CORPORATE PROPERTY

### A. PAYMENTS BY CHECK

RISKS

Each organization faces the risks that funds will be spent on unauthorized items, that someone will steal the organization's funds by taking blank checks or by writing checks to payees who are not authorized vendors, that someone will use corporate property for personal purposes or that payments made will be improperly recorded.

POLICY

Make all disbursements from the organization's funds by check, with the exception of petty cash. This allows the organization to track how the funds are spent, who is spending them and who is authorizing expenditures.

PROCEDURES

- *Opening Bank Accounts.* Bank accounts may be opened only upon authorization by the Board of Trustees.
    - All bank accounts must be opened with the organization's employer identification number (EIN).
    - The Board will approve the authorized signers on the organization's bank accounts.
    - Because of their accounting responsibilities, the Treasurer, Financial Secretary and Secretary should not be authorized check signers.
- *Custody of Checks.* The Secretary is the only person authorized to have access to unused check stock. The checks should be stored in a locked location and information about how to access them should be kept confidential from everyone but the President.
- *Check Authorization.* All invoices will be forwarded immediately to the Financial Secretary for review and authorization to pay.
    - The Financial Secretary will review all invoices for mathematical accuracy, agreement with a written invoice, conformity to budget or Board authorization and compliance with grant fund requirements, if applicable.
    - The Financial Secretary will ensure that all conditions and specifications on a contract or order have been satisfactorily fulfilled, including inventorying items received against packing slip counts.
    - By approving an invoice, the Financial Secretary indicates that he/she has reviewed the invoice and authorizes a check.

**Appendix A**
**Recommendations**

## DISBURSEMENT OF FUNDS/USE OF CORPORATE PROPERTY (continued)

- The Financial Secretary is responsible for timely follow-up on discrepancies and payment.

The Financial Secretary will send approved invoices to the Treasurer for payment.

- *Expenses Not Invoiced.* In some cases, expenses may not be invoiced, such as rent. When such expenses are due, the Financial Secretary needs to ensure that the expense is in the budget and write a note authorizing payment of the expense and the amount of the expense and supply it to the Treasurer.

- *Payment by Checks.* Upon approval of the invoice and note by the Financial Secretary, the Treasurer is authorized to prepare all checks and should do so.

    - Attach a stub of the check to the original invoice or write the check number on the invoice.
    - If a check is voided, the check will have "VOID" written in large letters in ink on the face and have the signature portion of the check torn out. Voided checks will be kept on file.
    - In the event that it is necessary to issue a duplicate check for checks in an amount over $50, the Treasurer will order a stop payment at the bank on the original check.

- *Duties of Check Signers.* All checks will be signed by two signers designated by the Board of Trustees. Prior to signing a check, a check signer will do the following:

    - Compare the check to the original invoice or the Financial Secretary's note to pay the expense.
        - Compare the amount on the check to the amount on the invoice or note.
        - Be sure that the Financial Secretary has initialed the invoice. This is to protect against the risk that payment is made based on a copy of the bill that has already been paid.
        - Check the date on the invoice or the Financial Secretary's note against the date of signing the check. If the difference is more than 60 days, get written approval from the Financial Secretary before signing the check. This is to mitigate the risk that the organization is paying the same expense twice.

    - Check to be sure that the amount of the check is not clearly unreasonable. For example, a $10,000 monthly payment for janitorial services would be unreasonable.

## DISBURSEMENT OF FUNDS/USE OF CORPORATE PROPERTY (continued)

- *Prohibited Practices*. In no event will:

    - invoices be paid unless approved by the Financial Secretary ;
    - blank check be signed in advance;
    - checks be made out to "cash", 'bearer', etc.

Each check signer will be made aware that signing blank checks exposes the organization to theft since the bank is entitled to charge our account for any check that has a valid signature. A signed blank check could be an invitation to theft.

- *On-line Payments*. If the organization makes online payments, arrangements need to be made with the bank that allow the Treasurer to have online, read-only access to the account(s). Arrangements should also be made to be sure that only the individuals the board has authorized as check signers will be permitted to authorize the payment of bills electronically. In addition to the monthly reconciliation, the Treasurer will periodically spot-check the account to compare the bank automatic payments with the vendor statements.

### B. PETTY CASH FUNDS

RISKS

Payments by cash are not as completely documented and are not as easily monitored as payments by check and thus subject the organization to greater likelihood of errors and fraud.

POLICY

The petty cash fund should only be used when payment by check is impracticable.

PROCEDURES

Administration of petty cash fund: The Financial Secretary is responsible for the administration of the petty cash fund. The fund shall be funded with checks made out to "Petty Cash – name of Financial Secretary" and initially recorded in the petty cash fund account. The Financial Secretary will require receipts for all purchases and may ask those reimbursed to sign for money the Financial Secretary provides as reimbursement.

The Financial Secretary will record all cash purchases in a journal and save the receipts. When the fund gets low, the Financial Secretary will apply to the Treasurer to reimburse the fund for the total amount expended. The check written to reimburse the petty cash fund will be recorded in the appropriate expense accounts for the items that were purchased with petty cash, so that these expenditures made through the petty cash fund are properly classified by type – for example, postage, parking fees, etc.

**Appendix A**
**Recommendations**

## DISBURSEMENT OF FUNDS/USE OF CORPORATE PROPERTY (continued)

### C. EXPENSE REIMBURSEMENT

RISKS

The organization does not have the same level of control over expenses incurred on behalf of the organization by those who pay with personal funds and seek reimbursement as it does for expenses paid directly by the organization. The organization is not in as good a position to determine whether the good or service purchased might have been obtained at a lower price elsewhere, whether there is a personal benefit to the person seeking reimbursement and how the expenditure fits in with the rest of the organization's budget.

POLICY

In proper circumstances, Board members, employees and volunteers are entitled to be reimbursed for expenses related to the organization that they incurred on behalf of the organization. To receive reimbursement, the following requirements must be met:

- The expense must have been authorized in advance by the Board or by the Financial Secretary or later approved by the Board or the Financial Secretary.
- The expense must have been incurred for goods or services purchased for the organization.
- If the expense is for travel, the travel must be for work related to the organization. The organization will reimburse no more than the standard mileage rate for business use of a car as established by the IRS. The organization will reimburse meal expenses incurred in direct connection with the organization's business, or at the per diem rate established by the IRS.

PROCEDURES

To be reimbursed for expenses:

1. *Documentation.* Reasonable documentation must be provided showing the date, amount and what the expense was for. Credit card receipts and store receipts that do not describe the purchase are not reasonable documentation. The receipt must describe the purchase.
2. *Timely Submission.* Documentation must be submitted with a request for payment within 60 days from the date the expense was incurred.

**Appendix A**
**Recommendations**

## DISBURSEMENT OF FUNDS/USE OF CORPORATE PROPERTY (continued)

3. *Overpayment.* If the organization overpays an individual, they must return any excess reimbursement within a reasonable period of time.

### D. PURCHASING

RISKS

The organization wants to ensure that all purchases on behalf of the organization are authorized by the Board or by Board policies. Unauthorized purchases deplete the organization's resources and interfere with the Board's ability to govern properly.

POLICY

All purchases made on behalf of the organization must be made pursuant to the Board-approved budget or Board rules.

PROCEDURES

The Financial Secretary can authorize purchases of $500 or less which conform to the Board's budget. The Board must approve all purchases above that amount. The Board must authorize any purchase which does not conform to the Board's budget.

### E. USE OF CORPORATE PROPERTY

RISKS

The organization faces a risk that individuals will use corporate property without authorization for personal purposes. Usage reduces the life of property and eventually is an expense that the organization assumes. It also betrays the trust of donors who expect that the organization will use its resources for purposes that help us achieve our mission.

POLICY

Property and equipment owned by the organization may only be used for corporate activities or activities approved by the corporation. They may not be used for personal purposes.

PROCEDURES

If a Board member, officer, employee or volunteer wants to use corporate property or equipment for any purpose other than a corporate purpose, that individual must obtain permission from the Board of Trustees.

**Appendix A**
**Recommendations**

## CREATION OF CORPORATE OBLIGATIONS

RISKS

The organization needs to ensure that any obligation undertaken in the corporate name is authorized by the organization and is for a corporate and not a personal purpose.

### A. CREDIT AND DEBIT CARDS

RISKS

Corporate credit or debit cards can be misused when people charge personal expenses on them, fail to obtain documentation showing that a purchase was for the organization or charge expenses on the corporate card for purchases that are embarrassing to the organization.

POLICY

The organization will not authorize the use of debit cards. The Board will determine whether there is a compelling need for the organization to obtain one or more credit cards. If the Board determines that credit cards are needed, the Board will authorize specific individuals to utilize a corporate credit card. A corporate cardholder may use the credit card only for official purposes directly related to the needs of the organization. The cardholder may not use a corporate credit card for personal purposes, even if he or she plans to reimburse the organization.

The following purchases are **not** allowed on the corporate credit card:

- Personal purchases
- Cash advances or loans
- Payroll advances
- Purchases for other organizations
- Alcohol
- Personal entertainment
- Fuel for personal vehicles
- Purchases from a business you own or operate unless pre-approved by the Board
- Any items inconsistent with the mission and values of the organization

An individual purchase shall not exceed $<u>250</u>. Aggregate monthly purchases shall not exceed $<u>500.</u>

**Appendix A**
**Recommendations**

## CREATION OF CORPORATE OBLIGATIONS (continued)

PROCEDURES

In order to use the card, the cardholder must follow these procedures:

1. *Cardholder Agreement.* Upon issuing a corporate card to a cardholder, the cardholder must sign a statement that the cardholder has read and understands this Credit Card policy and will reimburse the corporation for any personal charges on the card.
2. *Advance Approval.* The Board must give advance written approval to make a purchase whenever practical. The cardholder's purchase request should describe the purchase and cost.
3. *Original Receipts.* The cardholder must keep the original receipt that describes each purchase made on the card. The credit card receipt is not sufficient.
4. *Expense Form.* Within 5 days after the end of the billing cycle, the cardholder must prepare and sign an expense detail form and attach original receipts and a copy of the purchase request. In the case of meals, the statement must include the names of all persons at the meal and a brief description of the business purpose, in accordance with IRS regulations.
5. *Approval by Financial Secretary.* The cardholder must give the expense detail form to the Financial Secretary for approval. The Financial Secretary shall review each purchase to ensure that is reasonable, necessary, and the best value for the organization. The Financial Secretary will reconcile the expense detail form to the credit card billing statement, authorize payment and follow up on any inconsistencies.
6. *Notification of Loss/Theft.* The cardholder must notify the bank and the organization immediately in the event that the card is lost or stolen.

## B. BORROWING AND LINES OF CREDIT

RISKS

The organization needs to ensure that borrowing in the corporate name is authorized.

POLICY

The Board must approve any borrowing of funds in the name of the organization, including the use of any promissory notes or lines of credit. The Board must give very serious attention to be sure that the organization will have sufficient funds available to repay any loans or lines of credit on time.

**Appendix A**
**Recommendations**

## BANK RECONCILATION AND ON-LINE MONITORING

RISKS

Even the most honest and attentive individual makes mistakes. Monitoring allows us to uncover errors. If our records and the bank records do not agree, it is likely that our records are wrong. Monitoring also assists us in identifying discrepancies between our accounting records and our banking records that could suggest theft or fraud, checks signed by unauthorized signers, and identity theft.

POLICY

The Treasurer will monitor the corporation's accounts regularly and will prepare a monthly written reconciliation of all bank or investment accounts which proves that the balances presented on the financial reports agree with the records of the financial institution.

PROCEDURES

1. *Records to Treasurer.* The Secretary shall provide the Treasurer with a copy of all records of deposits.

2. *Bank Statement.* The Board will direct the bank to send the bank statements to the organization's address.

3. *Reconciliation.* The Treasurer will reconcile the bank statement monthly. The reconciliation should be done within 7 days of receiving the statement, as follows:

   - Check all checks for correct signatures and number of signatures and protest to the bank any incorrect signatures.

   - Review the checks in the bank records to ensure that:

     - the name of the payee, the amount of the check and the date of the check agree with the organization's accounting records.
     - whoever the check was made out to was the depositor of the check; and
     - each check has two valid signatures.

   - Compare the bank deposit records with the accounting records to determine whether each deposit recorded in the accounting records agrees with the bank record.

   - Check the cash entries in the receipt book against the bank record of deposits to ensure that all cash was deposited.

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**BANK RECONCILATION AND ON-LINE MONITORING (continued)**

- Check whether the ending balance in the general ledger cash account agrees with the bank statement, after making the adjustments on the bank reconciliation form.

- List all outstanding checks. On all checks outstanding over 90 days, take appropriate action.

- List all deposits in accounting records not yet recorded by the bank.

4. The President or a Trustee should participate with the preparation of all bank reconciliations. If this is not possible, then the President or a Trustee must review each bank reconciliation. The review must include comparing cancelled checks with the accounting system as well as supporting documentation.

5. *On-Line Banking*. Both the Financial Secretary and Treasurer should have on-line, read-only access to the bank account. The Treasurer should use the on-line access to check his/her work. The Treasurer should review the account on-line on a weekly basis to check for identity theft that is diverting corporate funds. The Treasurer can reconcile the bank statements and spot-check the on-line payments as described above.

**Appendix A**
**Recommendations**

## FINANCIAL REPORTING TO TRUSTEES AND MEMBERSHIP

Organizations should prepare monthly reports to submit for trustees' and membership's review at meetings on a monthly basis. A balance sheet should be prepared monthly showing the organization's assets, liabilities and equity. A year to date profit and loss should also be prepared each month. At each meeting, a listing of all checks written and all deposits received since the previous meeting should also be presented. Annually, organizations should be filing Form 990, Form 990-EZ, Form 990-T and a Maryland Personal Property Return, as required.

## COMMON SOFTWARE PLATFORM

In order to streamline financial operations of the volunteer fire and emergency medical services organizations, it is suggested that organizations be encouraged to utilize Quick Books accounting software. A uniform chart of accounts and financial statement presentation could be designed for all organizations to implement.

## TRAINING PROGRAMS

Organizations should be encouraged to implement training programs for all administrative leadership in the volunteer fire and emergency service organizations. Programs should focus on accounting practices and methods, as well as fraud and misappropriation of assets. Quick Books programs exist at the local community college to educate personnel on the software and processes within the program. Online courses in accounting fundamentals are also offered by the local community college. Fraud prevention and detection programs are available online or could be organized for a group through the Maryland Association of Certified Public Accountants.

## FINANCIAL REPORTING TO ALLEGANY COUNTY

Organizations should prepare quarterly financial reports to submit to Allegany County Department of Emergency Services. A balance sheet should be prepared showing the organization's assets, liabilities and equity. A quarter-to-date profit and loss as well as a year-to-date profit and loss statement should also be submitted. A copy of the organization's annual income tax return and Maryland personal property tax return should also be forwarded to Allegany County Department of Emergency Services.

Appendix A
Recommendations

## OTHER CONSIDERATIONS

**Related Organizations:**

The organization should maintain only one Federal Employer Identification Number (EIN). The organization should not allow other organizations use of their EIN, as this could impact their non-profit status. The entities using your EIN benefit from your tax-exempt status. If an auxiliary or other related organization is utilizing your EIN, then their activity is required to be reported with yours for financial reporting purposes. Internal controls should mirror that of yours. The supervision and monitoring of these related entities lies with the officers of the parent organization.

**Other:**

- Officers with authority over funds should be unrelated.
- Conflicts of interest policies should be signed by all officers and trustees.
- The organization should follow IRS criteria for determining independent contractors.
- Form 1099s should be issued for all individuals/vendors not incorporated and paid $600 or more for services per calendar year.
- The organization should file a Form 990, 990-EZ or 990-N, annually.
- The organization should never give loans to anyone.
- Paychecks should be handed out by someone not involved in the payroll function.
- All financial records should be maintained on the organization's premises.
- Periodically contact your financial institution and other financial institutions to obtain a list of accounts in your organization's name and compare them to your accounting records.
- Establish a zero-tolerance program in regards to theft. Make sure that it is understood, during orientation, that the organization will take legal action against any employee/volunteer caught stealing.

## OUTSOURCING

Another option would be to outsource the accounting and reporting functions for many of the fire and EMS organizations to a local firm. This would alleviate much of the detailed work (recording receipts, preparing checks, and preparing financial reports) that is currently being performed by volunteers. Outsourcing has become a very popular method of saving time and money for small non-profit organizations.

**Appendix A**
**Recommendations**

## SUMMARY

Internal control is defined as a process, affected by an entity's officers and trustees. This process is designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

1. Internal control is a process. It is a means to an end, not an end in itself.
2. Internal control is not merely documented by policy manuals and forms. Rather, it is implemented and maintained by employees/volunteers at every level within an organization.
3. Internal control can provide only reasonable assurance, not absolute assurance, to an entity's officers and board.
4. Internal control is geared to the achievement of objectives in one or more separate but overlapping categories.

Internal control can assist an organization achieve its performance and profitability objectives, and can prevent loss of resources. It can help ensure reliable financial reporting. Additionally, it can help ensure that the entity complies with laws and regulations, avoiding damages to its reputation and other serious consequences. Therefore, organizations need to ensure strong internal controls are in place and are operating as designed to achieve the organization's goals.

**Appendix B**
**Observations**

During our interviews of the 27 fire and EMS organizations, we noted the following observations of their financial controls:

- Officers are often related to each other
- Conflict of interest policies are not in place
- Some organizations are still using manual records, rather than computerized software
- Officer's other than the Treasurer often have access to the general ledger system
- Treasurers often are performing multiple duties (making deposits, preparing & signing checks and reconciling accounts) and therefore often have full financial responsibility
- Pre-numbered receipts are not always issued for cash payments received in person
- Some organizations are not stamping checks "for deposit only"
- Safe keeping of checks and cash is lacking when funds are not deposited in a safe or locked cabinet right away.
- Cash and checks are not always deposited at least once per week
- Safe access was sometimes provided to past officers or other unauthorized individuals
- A signature stamp used to sign checks
- A secondary review of bank reconciliations and cancelled checks was often not performed
- Some companies had numerous credit cards with excessive credit limits
- Dual signatures were not always required on checks
- Bank transfers were performed by someone without signature authority
- Supporting documents were not verified that they were reviewed and approved by someone other than the Treasurer
- Debit cards were used by a number of organizations
- Organizations do not have a formal process to follow IRS criteria for determining independent contractors and are not issuing Form 1099's for individuals/vendors who are not incorporated and were paid in excess of $600/calendar year
- Loans were given to volunteers