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| **Theft Prevention and Financial Controls** | Related Policies: | |
| *This policy is for internal use only and does not enlarge an employee’s civil liability in any way. The policy should not be construed as creating a higher duty of care, in an evidentiary sense, with respect to third party civil claims against employees. A violation of this policy, if proven, can only form the basis of a complaint by this department for non-judicial administrative action in accordance with the laws governing employee discipline.* | | |
| Applicable KY Statutes: | | |
| OSHA: | | |
| NFPA Standard: | | |
| Date Implemented: | | Review Date: |

1. **Purpose:** The purpose of this policy is to establish appropriate financial controls within the fire department to ensure that funds are properly managed, and that the threat of theft or other misuse of funds is minimized.
2. **Policy:** It is the policy of the fire department to apply strict financial controls to the management of the organization, and to that end ensure:
3. only appropriate expenses of the fire department are paid using fire department funds
4. there is a separation of financial responsibilities between check writing and reconciliation
5. that the books and accounts of the organization are reconciled monthly, reviewed quarterly, audited internally every year, and externally audited every three years

**Editor’s Note:** *This policy is intended for volunteer fire departments that operate as an independent, private, non-profit organization.* *Most volunteer fire departments have unpaid boards of directors who lack the type financial expertise that most large non-profit and for-profit corporations seek in their board members. Those associated with volunteer fire departments commonly assume that others involved with the organization are dedicated and above reproach, resulting in an atmosphere of trust. It is not uncommon for long serving and dedicated volunteers to rationalize a small, initial theft as a form of remuneration for services rendered. In an environment of trust, such small thefts may go unnoticed. Left unchecked, the misconduct may continue and grow, going on for years until discovered. The goal of this policy is to put appropriate controls in place to protect the organization, and reduce the opportunity for misuse of funds.*

1. **Definitions**

**Reconciliation committee:** A committee of board members who are responsible to reconcile all financial accounts on a monthly basis.

**Internal audit committee:** A committee of board members and members at large who conduct an internal audit on an annual basis.

**External audit committee:** A committee of board members and members at large who oversee the conduct an external audit.

**External audit:** A financial audit of all bank, investment, and financial accounts of the fire department, along with a review of financial controls, expense verification, and documentation, conducted by a licensed Certified Public Accountant, in accordance with the requirement of the board of directors.

**Editor’s Note:** There are a range of audits that can be conducted, and a range of associated costs. The board of directors should determine the appropriate level of audit to be conducted based upon the available funds and the risks that have been identified.

1. **Procedure**
2. **General Provisions**
3. The financial books and information of the fire department shall be available to any officer or board member at all times. Failure to produce requested information within a reasonable period shall be considered grounds for the immediate suspension of the person withholding the information.
4. All bank, investment, and financial accounts shall be reviewed and reconciled monthly by the reconciliation committee and separately by the treasurer; reviewed quarterly by the board of directors; audited annually by the audit committee; and audited at least every three years by an external auditor.

**Editor’s Note:** While all four of these reviews/audits are important, the most likely one to identify possible theft, and therefore the most likely to deter a possible problem, is the monthly reconciliation performed by someone other than the persons with check signing authority. The reconciliation committee must scrutinize expenditures to ensure they were duly authorized and are supported by proper documentation.

1. The treasurer shall report all financial deposits and transfers to the president within 24 hours of being made. All deposits and financial transfers shall be verified by the president.
2. Check writing and the payment of duly authorized expenses shall primarily be the responsibility of the treasurer. The fire chief and one other officer shall also be authorized to sign checks. The president shall not be authorized to sign checks.

**Editor’s Note:** The corporate officers named in this sample policy are listed as examples only. Each organization needs to determine the appropriate officer in their organization to sign checks, open and review statements, and serve on the reconciliation committee, mindful that there needs to be a separation of responsibility for check writing and reconciliation. Those with check signing responsibility should not serve on the reconciliation committee. In addition, the account statements and cancelled checks should be mailed to an officer who does not have check signing authority.

1. Checks of $500 or more shall require two signatures. The signing of blank checks or the placing of signatures of checks in advance is prohibited.
2. All non-check withdrawals of funds shall require two signatures.
3. All bank and investment statements together with cancelled checks shall be mailed to the president, who shall be responsible to inspect, examine and evaluate all statements and cancelled checks before forwarding them to the reconciliation committee. A copy of all bank and investment statements shall be provided to each board member at each board meeting. Where electronic statements are provided, a suitable arrangement shall be made by the president to review and archive a copy of the statements including copies of the cancelled checks. Copies of such electronic statements and checks shall be forwarded to the reconciliation committee.
4. Responsibility for the reconciliation of financial accounts shall rest with the reconciliation committee of the board of directors. After review by the reconciliation committee the treasurer shall complete an independent reconciliation. The parties shall work cooperatively to resolve any discrepancies.
5. All disbursements must be approved by the board of directors, and must be supported by the proper documentation that indicates the items purchased or service performed. The treasurer shall refuse to pay any bill or invoice for which the documentation is lacking, and shall report the same to the president and the board of directors. After due consideration for cause shown the board of directors may authorize payment of bills or invoices where documentation is lacking, but steps shall be taken to prevent a similar occurrence in the future.
6. The treasurer shall prepare an annual report on the financial condition of the fire company, that includes all bank, money market, investment, and financial accounts, together will all expenses incurred, broken down by category.
7. The treasurer shall monitor account balances and reconcile accounts as frequently as necessary between monthly reconciliations to responsibly manage the fire department’s accounts.
8. The treasurer shall be responsible to file, or oversee the filing of, all necessary tax documents
9. **Audits**
10. The bank, investment, and financial accounts of the fire department shall be audited by an external auditor at least every three (3) years. The scope of the audit shall be at the discretion of the board of directors.

**Editor’s Note:** Non-profit corporations that expend more than $500,000 of Federal funds are required by the Sarbanes-Oxley Act to conduct an annual audit in accordance with Federal requirements. Smaller charities with revenues of at least $250,000 should choose an appropriate level of financial review/audit by a professional accountant. The boards of nonprofit organizations that forego a comprehensive external audit should evaluate that decision periodically.

1. When an external audit is performed, an external audit committee shall be appointed by the board of directors to select and work with the external auditor. The external audit committee should ensure that the auditing firm has the requisite skills and experience to carry out the auditing function for the organization and that its performance is carefully reviewed.
2. Upon completion of the external audit, the external audit committee should meet with the auditor, review the audit, and recommend its approval or modification to the full board. The full board should review the audit and the external audit committee's report and recommendations. The full board of directors may also choose to meet with the auditor before formally accepting or rejecting the audit.
3. In addition to an external audit committee, an internal audit committee shall be appointed by the board of directors to conduct an internal audit annually.
4. The purpose of the internal audit shall be to evaluate compliance with the following control objectives:

**All financial transactions are reasonable and authorized**. Any transaction that appears to be unreasonable or out of the ordinary should be investigated. The control system used by the treasurer should readily identify unauthorized transactions which need to be investigated. The system of control should not permit invalid transactions to be posted to the accounting records, and should set off appropriate notifications.

1. **All transactions are recorded**. The control system should identify all legitimate transactions and ensure that they are recorded in the financial records.
2. **Transactions are properly valued**. Procedures must be in place to detect errors in recording and summarizing the value assigned to a transaction, including mathematical and clerical errors.
3. **Transactions are properly classified**. Internal control procedures must ensure that each recorded transaction is properly classified so the financial statements will be properly stated.
4. **Transactions are recorded at the proper time**. Procedures must be in place to ensure that transactions are recorded in a timely manner and in the proper reporting period in order to provide accurate financial information for the unit.
5. **Transactions are properly included in subsidiary records and correctly summarized**. The internal control system must provide for accurate summations of transactions and ensure that subsidiary records are correctly updated.
6. **Controls and Operating Procedures**
7. On at least an annual basis, the board of directors should review and authorize all bank accounts and check signers. Also, the board should review and adopt policies and procedures governing the use of signature stamps, daily deposits, investment activities, endorsements, requisitioning, authorizing, verifying, recording and monitoring all expenditures, including payment of invoices, use of petty cash and other expenditures.
8. Members, officers and board members who handle cash or have check signing responsibilities should be bonded either individually or under a blanket bond.
9. Current signature cards and other documents required by the financial institutions should be maintained on file at all times. The documents should be in accordance with the actions approved by the board of directors and recorded in the official minutes.
10. Financial institutions should be instructed in writing that the president and the board of directors are to be notified immediately of any unusual transactions or items such as insufficient fund notices or checks made payable to cash.

**Editor’s Note:** Organizations that own income producing assets such as real estate, rental property, rental equipment, or the like shall adopt policies and procedures which provide proper control and accountability. The board has responsibility for adopting a formal property management policy and approving the internal controls and operating procedures developed by management.

1. **Conflicts of interest**
2. Directors and officers should not have any personal or business interests that may conflict with their responsibilities to the organization.
3. For purposes of this provision, the term "interest" shall include a personal financial interest, the financial interest of an immediate family member, or the financial interest of a business associate, partner, employer, business, or corporation for which the person serves as a director, officer, member, stockholder, shareholder, investor, partner, limited partner, manager, trustee, employee, or beneficiary.
4. The term "concern" shall mean any corporation, association, trust, partnership, limited liability entity, firm, person or other entity other than the fire department.
5. Whenever a director or officer has a financial or personal interest in any matter coming before the board of directors, the affected person shall
   1. fully disclose the nature of the interest and
   2. withdraw from discussion, lobbying, and voting on the matter
6. A director or officer of the fire department shall not be disqualified from holding any office in the fire department by reason of any interest in any concern; nor be disqualified from dealing, either as vendor, purchaser or otherwise, or contracting or entering into any other transaction with the fire department; nor shall a transaction of the organization shall be voidable by reason of the fact that any director or officer of the organization has an interest in the concern with which such transaction is entered into, provided:
7. The interest of such officer or director is fully disclosed to the board of directors.
8. Such transaction is duly approved by a majority of the board of directors not so interested or connected, and is determined as being in the best interests of the organization.
9. Payments to the interested officer or director are reasonable and do not exceed fair market value.
10. The interested officer or director does not vote or lobby on the matter, nor is counted in determining the existence of a quorum at the meeting at which such transaction is authorized.
11. The minutes of meetings at which such votes are taken shall record such disclosure, abstention, and rationale for approval.
12. **Reporting of Financial Irregularities**
13. The fire department encourages all members to report suspected financial irregularities of which they become aware.
14. Members are expected to report any known or suspected irregularities to any officer or board member as they deem appropriate.
15. Financial irregularities may include fraud, false claims, false statements, conflict of interest situations, bribery, theft, or embezzlement by fire department directors, officer, members, agents, contractors or volunteers.
16. Any information reported will be considered to be confidential to the extent allowed by law, and may be reported anonymously. However, the board of directors encourages members to provide enough information that would allow investigators to contact the reporting member for further information or clarification.
17. The fire department, and its officers and board of directors, are prohibited from retaliating, punishing, or taking reprisals against any member who in good faith reports a suspected financial irregularity.
18. **Reporting Procedure**
19. The President is designated as the primary recipient of reports of financial irregularity. In the event that the president is suspected of involvement with the financial irregularity, any officer or board member is authorized to act as the recipient of a report of financial irregularity.
20. Members may report financial irregularities directly to the president, or to any officer or board member. Any officer or board member receiving such a report shall promptly notify the president unless the allegation involves the president. The report may be made by any of the following means:
    1. Telephone call
    2. E-mail
    3. Written communication
    4. In person communication
21. Regardless of the method of communication used, the following information should be provided:
    1. The name, position, and work location of the alleged perpetrator.
    2. A complete description of the alleged act.
    3. A description of how the alleged act was discovered.
    4. As best as can be determined, the date and time that the alleged act occurred.
    5. As best as can be determined, the value of the assets that have been compromised.
    6. The names of any supervisory personnel to whom allegations have previously been reported. If none, so state.
    7. Reporting member’s name, address, telephone number, and e-mail address.

Incomplete information may make it difficult or impossible to investigate the allegation(s).

1. Within one workday of receiving the report, the president or other receiving officer will initiate an investigation into the allegations that have been made. Where appropriate, the assistance of law enforcement should be requested
2. **Whistleblower Non-Retaliation**
3. The fire department and its officers, board members, and members, will not retaliate against a member who in good faith, has made a complaint of financial irregularity against an officer or director, on the basis of a reasonable belief that the requirements of this policy, or any state or Federal law was violated.
4. Intentionally making false accusations may lead to disciplinary action. Additionally, a party who is intentionally falsely accused may have certain legal remedies that could be exercised against his or her accuser.