



# Eagle-Matt Lee Fire Company #1, Inc.

## Financial Operations

### Report of Examination

Period Covered:

April 1, 2011 — June 13, 2012

2012M-213



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

January 2013

Dear Fire Company Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and fire company governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Eagle-Matt Lee Fire Company #1, Inc., entitled Financial Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Eagle Matt Lee Fire Company (Company) is a volunteer organization located in the Village of Ballston Spa in Saratoga County. The Company provides fire protection for the Village of Ballston Spa and parts of the Towns of Ballston and Milton. The Company is associated with the Village of Ballston Spa Fire Department (BSFD). The BSFD owns the Company's fire station, trucks, and all its fire gear. The Company owns the furniture, appliances, and musical instruments. For the year ended March 31, 2012, the Company received approximately \$45,000 in revenue, including \$20,800 in foreign fire insurance premiums, and disbursed approximately \$49,000.

The Company is operated in accordance with its constitution and by-laws. The Board of Directors (Board), which is responsible for the Company's overall general and financial affairs, consists of the President, Vice-President, recording secretary, financial secretary, Treasurer, Captain, immediate Past-President, and elected Directors. The President is the chief executive officer of the Company, and the Treasurer is the chief fiscal officer.

## Objective

The objective of our audit was to evaluate internal controls over the Company's financial operations. Our audit addressed the following related question:

- Are Company controls adequate to ensure that financial activity is properly recorded and reported and that Company moneys are safeguarded?

## Scope and Methodology

We examined the internal controls over the Company's financial operations for the period April 1, 2011, to June 13, 2012. Due to control weaknesses, we expanded our scope for the review of disbursements back to January 1, 2010.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

## Comments of Company Officials and Corrective Action

The results of our audit and recommendations have been discussed with Company officials and their comments, which appear in Appendix A, have been considered in preparing this report. Company officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

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, pursuant to Section 35 of the General Municipal Law. 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 this plan available for public review in the Company Secretary's office.

## Financial Operations

Good internal controls help ensure that financial activity is properly recorded and reported, and appropriate Board oversight of financial operations can help safeguard Company moneys. Detailed documentation of all transactions, proper authorization of expenses, and timely deposit of cash are essential in accounting for Company moneys.

Controls over the Company's fiscal activities were weak. The Board failed to provide adequate guidance to those responsible for receiving and depositing cash and exercised little oversight of the Treasurer and other officials who performed these duties. The Board's failure to provide oversight of the Company's fiscal operations creates a significant risk that Company disbursements may not be for appropriate purposes and that all moneys received may not be deposited and accurately recorded.

Board Oversight – The Board is responsible for overseeing the Company'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; that financial reports are accurate and reliable, and filed in a timely manner; and that the Company complies with its constitution and by-laws and other applicable laws, rules and regulations, including General Municipal Law's requirement for a code of ethics.<sup>1</sup> The Board should also adopt an annual operating budget to assist it in monitoring revenues and expenditures and controlling Company resources.

The Board did not provide adequate oversight of Company financial activities. The Board has not adopted written financial policies and procedures or a code of ethics, as required by statute. There was a lack of Board oversight over financial transactions. Additionally, annual operating budgets were not prepared for the 2011-12 and 2012-13 fiscal years.

Records and Reports – The Treasurer must maintain complete, accurate and timely records to account for all of the Company's financial activities properly. The Treasurer is required by the Company's constitution and by-laws to prepare and present monthly reports to the Board.<sup>2</sup> While not specifically addressed in the Company's constitution and by-laws, the Treasurer should also

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<sup>1</sup> General Municipal Law Section 209-ee

<sup>2</sup> The recording secretary is required to include the report in the meeting minutes.

prepare an annual report and submit it to the Board at the annual meeting.

The accounting system is inadequate because check registers are not maintained to track bank deposits, withdrawals, or cash balances. Furthermore, revenue and expenditure ledgers are not maintained, bank reconciliations are not performed, and the bank statements are not reviewed by anyone other than the Treasurer. The Treasurer can make withdrawals from savings accounts without written authorization or subsequent review. The Treasurer does prepare an annual report; however, we reviewed the financial report for the 2011-12 fiscal year and found it to be insufficient. It did not include beginning cash balances, contained mathematical errors, and total revenues on one page did not agree with the same total revenues on another page. These control weaknesses increase the risk that errors and/or irregularities could occur and not be detected and corrected in a timely manner.

Audit Committee – The Audit Committee is required to audit all Company bills and, if correct, to order them to be paid. They also are required to examine the records of the secretaries and the Treasurer once each year during the month of April, or as directed by the President.

There is no record that the Audit Committee audited and approved the bills for payment, as the warrant listing the bills to be paid was unsigned. There also was no indication in the minutes that the Audit Committee had performed an annual review of the Treasurer or financial secretary's records for the 2011-12 fiscal year. As a result of the lack of oversight, errors and inconsistencies could occur and go undetected and uncorrected.

Fund-raising – The Board should establish procedures to ensure that all moneys received from fund-raisers are properly accounted for and recorded. Cash reports and duplicate receipts should be maintained for each fund-raiser.

Adequate internal controls have not been established over fund-raising activities. Other than documentation of one pancake breakfast, there were no fund-raising reports available for our review, or duplicate receipts available to document transmittal of funds between individuals or officials. These control weaknesses increase the risk that errors and/or irregularities could occur and not be detected and corrected in a timely manner.

Due to these deficiencies, we judgmentally selected 59 check disbursements totaling \$18,748 made by the Company during the

period January 1, 2010, through June 13, 2012, to determine if they were audited prior to payment, included sufficient supporting documentation, and were for appropriate Company purposes. We found two checks totaling \$479 that did not agree with the accounting records: one check was for \$50 but the Treasurer's report showed the check amount as \$100, and another check was for \$429 but the Treasurer's report showed an asterisk (\*) rather than a dollar amount. We also found 13 payments totaling \$6,987 that did not have evidence of audit by the Audit Committee and 13 others totaling \$6,714 that lacked adequate supporting documentation.<sup>3</sup> In addition, we identified 14 checks totaling \$5,333 that were made out to "cash," five of which lacked evidence of audit and supporting documentation. Company officials told us that three of these five checks were used for start-up banks<sup>4</sup> at fund-raising events, one was used to pay the kitchen crew, and the last was used for refreshments during a drill meeting. Without proper documentation, these assertions could not be verified.

A lack of controls invites abuse. Because the Board has not established adequate policies and procedures for controlling cash receipts and disbursements, it has not fulfilled its responsibility to safeguard Company moneys. In addition, because the Board did not monitor the Treasurer's activities or the activities of individuals who participate in fund-raising activities, Company funds were vulnerable to theft and misuse. An adequate system of internal controls would lessen the likelihood that the theft or misuse of Company's funds could occur and not be detected.

## **Recommendations**

1. The Board should adopt financial policies to assist in safeguarding Company assets, such as policies for purchasing and fund drive accountability.
2. The Board should adopt an annual operating budget to assist it in monitoring revenues and expenditures and controlling Company resources.
3. The Board should adopt a code of ethics, as required by statute.
4. The Treasurer should maintain complete records including revenue and expenditure ledgers and check registers that include deposits, other withdrawals or credits, and a running balance.
5. The Treasurer should perform bank reconciliations of all bank accounts monthly and present them to the Board and membership

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<sup>3</sup> Adequate documentation includes having purchase receipts, purchase orders, and authorizations attached to the disbursement packets.

<sup>4</sup> Start-up banks are used to create change for customers at fund-raising events, such as pancake breakfasts or car washes.

for review. In addition, bank statements should be reviewed by someone other than the Treasurer.

6. The Treasurer's and financial secretary's financial reports should be presented to the Board for review. The review should be noted in the minutes.
7. The Board should ensure that care is taken in the preparation of the annual report so that it results in a complete, straight-forward, and accurate document.
8. After auditing the bills, the Audit Committee should generate a signed warrant addressed to the Treasurer that specifies the bills approved for payment and ordering them to be paid. The Audit Committee should also perform an annual review of the records of the Treasurer, financial secretary, and others who handle Company funds. This review should be recorded in the minutes.
9. The Board should ensure that cash reports and supporting duplicate receipts are maintained for fund-raising activities. Cash reports should be prepared daily or immediately upon the close of a fund-raising activity.
10. The Board should ensure that checks are only prepared when there is evidence of audit and adequate supporting documentation, should ensure that checks and accounting records are in agreement, and should prohibit the practice of writing checks to "cash."

## **APPENDIX A**

### **RESPONSE FROM COMPANY OFFICIALS**

The Company officials' response to this audit can be found on the following page.

# EAGLE-MATT LEE FIRE COMPANY, NO. 1

ORGANIZED 1816

ROBERT J. CREIFELDS, SECRETARY

POST OFFICE BOX 4  
BALLSTON SPA, NEW YORK 12020

December 28, 2012

Office of State Comptroller  
One Broad Street Plaza  
Glens Falls New York 12801- 4396  
Attn. Jeffery P. Leonard Chief Examiner

Dear Sir:

Thank you for the audit of the Eagle Matt Lee Fire Co, #1. I presented copies of the draft audit to the Board of directors at our regular meeting and the board was in total agreement to take action on all of the recommendations in the audit. We are working on a written financial operations plan as well as necessary changes to our Company By Laws.

Sincerely,

Gerald Morris  
President

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*Member of*

FIREMEN'S ASSOCIATION OF THE STATE OF NEW YORK  
HUDSON-MOHAWK VOLUNTEER FIREMEN'S ASSOCIATION, INC.  
SARATOGA COUNTY VOLUNTEER FIREMEN'S ASSOCIATION, INC.  
HUDSON VALLEY VOLUNTEER FIREMEN'S ASSOCIATION, INC.

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Company assets and monitor financial activities. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. During the initial assessment, we interviewed Company officials, performed limited tests of transactions, and reviewed pertinent documents, such as the Company's by-laws, meeting minutes, and financial records and reports for the period April 1, 2011, through June 13, 2012. The scope period was extended to January 1, 2010, for our review of disbursements.

After reviewing the information provided, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected cash disbursements for further review.

To accomplish our audit objectives and obtain relevant audit evidence, our procedures included the following:

- We determined if the Board adopted relevant financial policies and written procedures.
- We assessed the adequacy of the Company's accounting system and records.
- We determined if the Treasurer performs monthly bank reconciliations and if the bank reconciliations are presented to the Board, and if someone other than the Treasurer reviews the bank statements. We determined the frequency and extent of any bank statement reviews by discussion with select Board members.
- We determined if the Treasurer submits monthly financial reports to the Board. We verified, by reviewing Board minutes and discussing with select Board members, the extent of any review of the reports. We reviewed monthly reports for adequacy.
- We determined if the Board hired an outside firm or individual to conduct an annual audit or if the Board itself performs an audit. We verified whether an annual audit was documented in the meeting minutes.
- We determined if the Board audited claims and how often. We verified that abstracts of audited claims are noted in the minutes. We scanned abstracts and claims for adequacy and completeness. We discussed with Board members the extent of their audit of claims.
- We analyzed financial condition by reviewing annual reports for the last three completed fiscal years.

- We compared the annual financial report to the accounting records and bank accounts (as needed). We determined if reserves are maintained as a separate fund. We verified that the recorded or reported reserve balance was supported and accurate.
- We accounted for all bank accounts, certificates of deposit, and bank statements for one completed fiscal year and to date. We reviewed bank account activity for unusual transactions, withdrawals, and open and closed accounts. We tested any non-check withdrawals for proper authorization. Where there were multiple bank accounts, we tested interbank account activity. If other anomalies and/or problems were identified, we tested for proper authorization.
- We determined what revenues the Company receives (insurance recoveries, hall rentals, foreign fire insurance proceeds, and fund-raising activities) and reviewed documentation and requested further information from Company officials, as needed.
- For the 59 high-risk disbursements, we reviewed claims for completeness, supporting documentation, quality of documentation, unusual items or excessive purchases, and payments to Board members and related parties. These 59 disbursements were considered “high risk” because the checks were made out to “cash” or individuals, including Company officials, or were used to pay for goods and/or services from gift shops, Walmart, BJ’s Wholesale Club, Price Chopper food stores, or auto supply stores.
- For compensated positions, we compared payroll checks for one year to the total amount authorized for the position. We determined whether payroll withholdings were properly made, reported, and remitted. If required, we determined whether Form 1099s were filed.

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.

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