



# Union Fire Company #2, Inc. Financial Operations

## Report of Examination

Period Covered:

April 1, 2011 — May 15, 2012

2012M-205



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	2
<b>INTRODUCTION</b>	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Company Officials and Corrective Action	3
<b>FINANCIAL OPERATIONS</b>	5
Recommendations	7
<b>APPENDIX A</b> Response From Company Officials	9
<b>APPENDIX B</b> Audit Methodology and Standards	11
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	13
<b>APPENDIX D</b> Local Regional Office Listing	14

# 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:

The Office of the State Comptroller is authorized to oversee the fiscal affairs of fire companies statewide, as well as their compliance with relevant statutes and observance of good business practices, through the conduct of audits. These audits identify opportunities for improving fire company operations and governance. By doing so, the audits can help Fire Company officials manage company resources efficiently and effectively, and provide accountability for moneys used to support company operations. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard company assets.

Following is a report of our audit of Union Fire Company #2, Inc., entitled Financial Operations. This audit was conducted pursuant to 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 fire company officials to use in effectively managing operations and in meeting the expectations of the public. 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 Union Fire Company #2, Inc. (Company) is a volunteer organization located in the Village of Ballston Spa, Saratoga County. The Company provides fire protection for the Village of Ballston Spa, and parts of both the Towns of Ballston and Milton. The Company is associated with the Village of Ballston Spa Fire Department (BSFD). The BSFD owns the fire station, trucks, and all related fire gear. The Company owns the furniture, appliances, and musical instruments. For the fiscal year ended March 31, 2012, the Company received approximately \$74,000 in revenue, including \$20,800 in foreign fire insurance premiums, and disbursed approximately \$67,000.

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 Foreman, 1st Assistant Foreman, 2nd Assistant Foreman, Recording Secretary, Financial Secretary, and Treasurer. The Foreman is the Company's chief executive officer 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 May 15, 2012.

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 expenditures, 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, 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> It is also important for the Board to 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 Company's Constitution and by-laws have not been updated since 1978 and do not include authorization for the compensation currently paid to the Financial Secretary, Recording Secretary, Treasurer and Steward<sup>2</sup> or the amounts paid to families of deceased Company members. The Board has not adopted written financial policies and procedures nor has a code of ethics been adopted, as required by statute. In addition, 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 should prepare and submit

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

<sup>2</sup> For the 2011-12 fiscal year, the compensation amounts paid were: Financial Secretary-\$250; Recording Secretary-\$250; Treasurer-\$270; Steward-\$500.

monthly reports to the Board and is required by the Constitution and by-laws to prepare and submit an annual financial report of the Company's financial activities to the Board at the annual meeting.

We found that the accounting system was inadequate because check registers are not maintained to document bank deposits, withdrawals, or cash balances. Furthermore, a revenue ledger is 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 Board review. The Treasurer also has the ability to transfer funds from one bank account to another without supporting documentation or authorization. The minutes did not include evidence of the Board's annual review of the Treasurer's or Financial Secretary's records.

Fundraising — The Board should establish procedures to ensure that all funds received from fundraisers are properly accounted for and recorded. Cash reports and duplicate receipts should be maintained for each fundraiser.

Adequate internal controls have not been established over fundraising activities. Other than documentation of one fundraising dinner, there were no fundraising reports available for our review, nor were there 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.

Claims Processing — While not specifically addressed in the Company's Constitution and by-laws, the Board should review and approve bills prior to payment to ensure that Company funds are used for only legitimate Company expenditures and evidence this approval in the minutes and by signing the Treasurer's and Financial Secretary's reports.

The Board did not review and approve all bills prior to payment or evidence their approval in the minutes. The Board did not sign the Treasurer's and Financial Secretary's reports to document their approval of the reports.

Due to these deficiencies, we selected and reviewed all 59 check disbursements totaling \$22,376 made by the Company during May, June, and July of 2011.<sup>3</sup> We found seven disbursements (or 12 percent) totaling \$1,641 were not included on the Financial Secretary's report, and, therefore, they were not approved during the monthly meeting.

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<sup>3</sup> We selected May, June, and July 2011 because these three consecutive months contained the highest total dollar amount spent for a three-month period.

There were 21 disbursements (or 36 percent) without adequate documentation and support.<sup>4</sup> Based on notations on check stubs, purchases reviewed appear to be appropriate Company expenditures.

We also scanned all bank account activity for non-check disbursements for the entire audit period. We found no authorization in the minutes or elsewhere for \$7,500 of non-check bank withdrawals that occurred during our audit period.

- \$5,000 was transferred to another Company account without any authorization or supporting documentation.
- \$2,000 was withdrawn from the Mortuary Fund, with no written authorization, for payments made to the families of two deceased Company members. Company officials informed us that, in each instance, the \$1,000 was withdrawn in cash, placed in an envelope and given to the member's family. This conflicts with the by-laws which state that the family of any active member shall be entitled to a payment of \$150 from the Mortuary Fund upon a member's death. There was no documentation available to confirm that these payments were for legitimate Company purposes.
- \$500 was withdrawn from a passbook savings account with no written authorization. Company officials informed us that the money was to purchase a \$500 debit card so that a member's family could travel to Vermont for his medical treatment. There was no documentation available to confirm that the payment for the debit card was a legitimate Company purpose.

A lack of controls increases the risk for abuse. Because the Board has not established adequate policies and procedures for controlling cash receipts and disbursements, it has not fulfilled its fiduciary responsibility to account for and safeguard Company moneys. In addition, because the Board did not monitor the Treasurer's activities or the activities of individuals who participate in fundraising activities, Company funds are 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 update the Constitution and by-laws to reflect all policy and procedural changes that have occurred since 1978 and annually authorize compensation amounts to be paid to the Treasurer, Financial Secretary, Recording Secretary, and Steward.

<sup>4</sup> Adequate documentation consists of purchase receipts, purchase orders, and authorization attached to the disbursement packet.



2. The Board should adopt financial policies to assist in safeguarding Company assets, such as policies for purchasing and fundraising accountability.
3. The Board should adopt an annual operating budget to assist it in monitoring revenues and expenditures and controlling Company resources.
4. The Board should adopt a code of ethics, as required by statute.
5. The Treasurer should perform bank reconciliations of all bank accounts monthly and present them to the Board for review.
6. The Treasurer should maintain complete records including a revenue ledger and check registers that include deposits, other withdrawals or credits, and a current balance.
7. The Board should 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.
8. The Board should ensure that cash reports and supporting duplicate receipts are maintained for fundraising activities.
9. The Board should review all Company disbursements and require adequate and detailed documentation to support all disbursements. The Financial Secretary should ensure that all disbursements are included on the monthly report to the Board.
10. The Treasurer's and Financial Secretary's financial reports should be presented to the Board for review and signature. The Board's approval of the reports should be documented in the minutes.
11. The Board should authorize any fund transfers and cash withdrawals including cash payments to Company family members or debit card purchases.

## **APPENDIX A**

### **RESPONSE FROM COMPANY OFFICIALS**

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



**Union Fire Company No. 2, Inc.**  
**319 Milton Avenue**  
**Ballston Spa, New York 12020**

January 5, 2013

[REDACTED]  
NYS Office of the State Comptroller  
Division of Local Government and School Accountability  
One Broad Street Plaza  
Glens Falls, NY 12801

Dear [REDACTED],

The Union Fire Company #2, Inc. acknowledges receipt of the Financial Operations Report of Examination for the period of April 1, 2011 to May 15, 2012. The report identifies that the controls over the Company's fiscal activities were weak. The board accepts the recommendations made within this report and each item will be discussed in our Corrective Action Plan that will be filed separately.

Respectfully Submitted,

Glenn Bowers Jr., Foreman  
Union Fire Company #2, 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 May 15, 2012.

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 upon the reported objective and scope by selecting for audit those areas most at risk. We selected records and reports, and Company oversight for further review.

To accomplish our audit objective 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.
- For compensated positions, we compared payments 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 determined if the Treasurer performs monthly bank reconciliations, if bank reconciliations are presented to the Board, and whether someone other than the Treasurer reviews the bank statements. We determined how often bank statement reviews are performed, and their extent, through discussions with select Board members.
- We determined if the Treasurer submits monthly financial reports to the Board. We reviewed Board minutes and discussed with select Board members the extent of any review of the reports. We also 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 performs the audit. We verified whether the annual audit was documented in the Board minutes.
- We determined if the Board audits claims and how often. We verified that abstracts of audited claims are documented 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 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, fundraising activities) and reviewed or inquired as appropriate.
- We reviewed 59 (or 100%) of the claims for April, May, and June 2011 for completeness, supporting documentation, quality of documentation, unusual items or excessive purchases, and payments to Board members and related parties.

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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