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August 2015

Ronald Bixby, President
Fire Company Membership
Clyde Fire Company, Inc.
P.O. Box 266
Clyde, New York 14433

Report Number: 2015M-072

Dear President Bixby and Fire Company Members:

The Office of the State Comptroller works to identify areas where fire company officials can improve their operations and provide guidance and services that will assist them in making improvements. Our goals are to develop and promote short-term and long-term strategies to enable and encourage fire company officials to reduce costs, improve service delivery and account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Clyde Fire Company, Inc. (Company) which addressed the following question:

- Has the Executive Committee provided adequate oversight over Company operations to ensure that financial activity was properly recorded and reported and that Company funds were safeguarded?

We discussed our findings and recommendations with Company officials and considered their comments in preparing this report. The Company's response is attached to this report in Appendix A. Company officials generally agreed with our recommendations and indicated they plan to take corrective action.

Background and Methodology

The Company is a not-for-profit volunteer organization located in the Village of Clyde in Wayne County. The Company is affiliated with the Galen-Clyde Joint Fire District (District). The Company provides manpower to operate the fire equipment owned and maintained by the District and housed at the Company's fire house. The Company has approximately 35 members and responded to 266 calls during 2014. The Company's primary sources of revenues are rents received from the District and the Town of Galen, various fund-raising activities, private donations and

foreign fire insurance premiums.¹ The Company collected foreign fire insurance premium tax moneys totaling \$15,461 in 2014, which included \$6,603 not paid over in 2013 by the District. In 2014, the Company's revenues were approximately \$110,500 and disbursements totaled \$95,000.

The Company is operated in accordance with its constitution and bylaws and governed by an eight-member elected Executive Committee (Committee). The Committee is comprised of the President, Vice President, Recording Secretary, Chief and four members.² The Committee is responsible for the general management and control of the Company's financial affairs. Company members elect a Treasurer, who is responsible for the Company's financial duties, including receiving and maintaining custody of the Company's funds, disbursing and accounting for those funds and reporting monthly to the membership.

We examined the internal controls over the Company's financial operations for the period January 1, 2013 through December 31, 2014. We interviewed appropriate Company officials and reviewed financial records and meeting minutes. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Audit Results

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

The President is responsible for appointing a three-member audit committee to audit and approve all bills prior to payment. Once the audit committee approves bills for payment, the President and Recording Secretary sign vouchers ordering the Treasurer to pay them. The bylaws state the Treasurer³ is responsible for receiving all Company moneys and depositing them within three days after issuing a receipt. The Treasurer is also responsible for paying all Company bills upon vouchers being signed by the President and Recording Secretary. Withdrawals from Company bank accounts require the Treasurer's and President's signatures. In addition, the Treasurer must remit a report to the membership at each regular meeting that lists all amounts received and expended and the date, purpose and payee of each expenditure.

Further, twice a year, the Treasurer is required to present his books and records to the audit committee. The audit committee is responsible for examining the Treasurer's books and verifying the bank balances and for presenting a report at the Company's annual meeting. The Committee

¹ Insurance companies organized or incorporated outside of New York State which write fire insurance policies on properties located in the State must pay 2 percent of the premium to the State. New York State Insurance Law provides that the treasurer or fiscal officer of the fire company providing fire protection should receive these funds.

² The term of office for the President, Vice President, Recording Secretary and Chief is two years from the date of the annual meeting.

³ The current Treasurer has been in the position since April 2014.

is responsible for preparing and filing all reports required by law, for properly maintaining the fire building and grounds and for renting and scheduling fund-raising activities and fire hall use.

We found that the Committee could improve its oversight of the Company's financial activities. Although the Committee has adopted Company bylaws, which include cash disbursement policies, we found them to be inadequate. Even though the Company's bylaws specifically detail the audit committee's responsibilities and the Treasurer's duties, these guidelines did not adequately segregate or provide oversight of the Treasurer's duties. The Treasurer controls all aspects of the cash receipts and disbursements processes without any oversight or mitigating controls, such as independent review of his work. At each monthly meeting, the Treasurer provides a balance sheet listing the cash balances for three of the Company's bank accounts, check registers and cash receipt journals, where necessary, to the Committee and membership. Even though the Treasurer provides these financial reports at the monthly meetings, he informed us that no one discusses these reports during the meetings.

Further, the President did not appoint a three-member audit committee to review the Treasurer's work during our audit period. The concentration of key financial duties with one individual, without adequate oversight or mitigating controls, increases the risk of errors or irregularities occurring without being detected and corrected.

In addition, the Committee has not adopted policies or procedures for financial operations, such as conducting fund-raising activities, purchasing goods and services and processing claims. As a result, the Treasurer does not receive all Company moneys, prepare and make all deposits, pay all Company bills and perform all recordkeeping functions in accordance with Company bylaws. Further, with little Committee oversight, individuals other than the Treasurer make deposits into and expend Company moneys from five Company bank accounts for activities.⁴

We found that the Treasurer generally maintained appropriate financial records for the general checking account. However, the Treasurer does not perform formal bank reconciliations for the general checking account and other bank accounts. He does prepare a general checking account register report which shows the beginning monthly balance, deposit amounts, withdrawal amounts and cash balance. For the Company's five other accounts, the Treasurer prepares financial reports from bank statement information. Without formal bank reconciliations comparing the book to bank balances, errors will not be detected or corrected.

The Treasurer informed us that, since he took office, he has not been able to reconcile the general checking account. Because of this, we performed a bank reconciliation for the general checking account for the month of December 2014 and compared it to the Treasurer's accounting records for this month.⁵ We found the Treasurer's cash balance for this checking account was greater than our bank reconciliation by \$168.

⁴ Four bank accounts are related to fund-raising activities and one bank account is established for donations and hall rental charges from individuals. Disbursement checks and withdrawals from these accounts are signed by individuals other than the Company President and Treasurer.

⁵ We reconciled the last month of the most recently ended fiscal year (December 2014) at the time of our audit fieldwork.

We also reviewed all 344 disbursements made during our audit period, totaling \$196,654, and found that they were appropriately endorsed, adequately supported and for reasonable Company purposes.

We also reviewed all 162 deposits from our audit period, totaling \$207,000. These deposits consisted of proceeds from foreign fire insurance, fire hall rentals, donations and fund-raising events.⁶ However, we could not verify that all fund-raising proceeds were properly deposited because the Treasurer and other individuals who collected moneys did not maintain records for the funds collected at the various fund-raisers. A lack of records indicating amounts collected for each fund-raiser increases the risk that Company funds could be stolen and misused. We discussed other minor deficiencies with Company officials during the conduct of our fieldwork.

Recommendations

The Committee should:

1. Adopt financial policies and procedures that adequately segregate duties and provide oversight, including policies and procedures related to fund-raising activities, cash receipts and disbursements, purchasing goods and services and claims processing.
2. Review the financial reports provided by the Treasurer at each monthly meeting.
3. Ensure the President appoints three individuals to the audit committee to review and approve bills prior to payment, as required by the bylaws.
4. Ensure the audit committee completes an adequate, documented annual audit as required by the bylaws. The annual audit should include a review of cash receipts, disbursements and bank statement information.

The Treasurer should:

5. Document monthly bank reconciliations for all Company bank accounts and provide a copy of this information to the Committee and membership for review.
6. Maintain accurate records for the amount of funds that are collected at all fund-raising events.

The Committee 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. 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 Committee to make this plan available for public review.

⁶ These events included such activities as dinner ticket raffle, 15th of August carnival, chicken barbeques and other activities.

We thank the officials of the Clyde Fire Company, Inc. for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

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

CLYDE FIRE COMPANY, INC.
PO BOX 266
CLYDE NY 14433-0266

Edward V. Grant
Chief Examiner
The Powers Building
16 Main St, Suite 522
Rochester NY 14614-1608
July 7, 2015

Dear Mr. Grant:

The Clyde Fire Company acknowledges and accepts your preliminary draft finding in regards to our audit #2015M-072. The Clyde Fire Company Executive Board has met and has begun the process of reviewing and putting together a plan of action. Thank you for your complete review of our Company. We will be making every effort in following through on your recommendations.

Sincerely,

Ron Bixby,
President