

Sea Breeze Volunteer Fire Association Inc.

Board Oversight

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OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Sea Breeze Volunteer Fire Association Inc.

Audit Objective

Determine if the Sea Breeze Volunteer Fire Association Inc. (Association) Board provided adequate oversight of financial operations.

Key Findings

The lack of any meaningful Board oversight resulted in noncompliance with the majority of applicable laws, bylaw provisions and good business practices. The Board did not:

- Enforce or adopt adequate bylaws.
- Develop or approve operating budgets or ensure proper accounting or financial records were prepared or maintained. As a result: fundraising records were not maintained; cash receipts were not properly accounted for or safeguarded; the Treasurer managed only one of the nine bank accounts; the Chief had complete control of one account and the President controlled seven accounts.
- Audit – or delegate someone to audit – and approve disbursements. For example, 380 disbursements totaling \$120,217 had no supporting documentation, including all 48 Chief’s account disbursements totaling \$22,121.

As a result, the lack of suitable records limited our ability to determine if funds were accounted for or used for proper business purposes.

Key Recommendations

- Amend the bylaws or adopt separate written financial policies and procedures and monitor and enforce compliance.

Association officers generally agreed with our findings and recommendations and indicated they have begun to take corrective action.

Background

The Association is a not-for-profit organization, incorporated in 1915, to provide emergency protection within the affiliated Sea Breeze Fire District (District) in the Town of Irondequoit, Monroe County.

A five-member Board of Directors (Board), governs the Association, along with its bylaws. The President is responsible for chairing Board meetings and countersigning all checks. The Treasurer is responsible for maintaining custody of, disbursing and accounting for the Association’s financial assets and providing the Board with monthly and annual reports. The Association’s primary sources of revenue include District rent, cell tower rent, hall rental and fundraising proceeds.

Quick Facts

2016	
Deposits	\$108,194
Disbursements	\$112,825
2017 through September 30	
Deposits	\$70,228
Disbursements	\$52,185

Audit Period

January 1, 2016 – February 22, 2018

Board Oversight

What Is Effective Board Oversight?

A board must establish a system of internal controls, including clearly defined and enforced bylaws and other policies and procedures that ensure effective oversight of financial activities, accountability of money collected, and that transactions are authorized and properly recorded and financial reports are accurate, reliable and filed in a timely manner. In addition, New York State General Municipal Law (GML)¹ requires a board to adopt a code of ethics that provides standards of conduct and procedures for disclosure of interests.

The bylaws state that the Board shall have charge of all finances and be responsible for the auditing of all money affairs conducted within the Association. They also require the Treasurer to receive – and give receipts for – all money collected, pay all bills when ordered, keep current account of all receipts and disbursements, submit the accounts to the Board when called upon and report the state of the finances at the monthly business and annual meetings. They additionally require that all money be deposited within three days from the time of receipt and that all checks be signed by both the Treasurer and the President.

The bylaws also require a monthly audit committee consisting of three Board members to review receipts and disbursements for the previous month prepared by the Treasurer. An effective claims auditing process ensures that every claim against the Association is subjected to an independent, thorough and deliberate review to determine if proposed payments represent actual and necessary Association expenditures and are in accordance with Association policies. Further, it is important that claims are audited before payment and that the authorization to pay claims is documented. An effective claims audit prevents unauthorized, improper or fraudulent claims from being paid. Debit cards pose significant risks because users have direct access to Association bank accounts and unauthorized use may not be readily detected. The use of debit cards does not allow audit and approval prior to payment.

The bylaws further require the formation of an annual auditing committee to consist of five members appointed by the President, with the Vice President as the head of the committee.

The Board Did Not Adopt Adequate Financial Policies and Procedures

We found that the bylaws are inadequate and the Board did not adopt supplemental financial policies or procedures. The bylaws contain limited responsibilities for different positions, but do not contain detailed policies or

¹ New York State (NYS) General Municipal Law (GML) Section 209-ee

procedures for key financial areas including cash receipts, purchasing, claims audit and approval, debit card use, cash management, monthly and annual reporting and annual audits. The limited bylaw provisions – related to financial operations and duties – are generally vague, and often conflict with other bylaw provisions. For example, the bylaws require the President to appoint an annual auditing committee, but do not specify the duties of that committee. As another example, the bylaws provide that no money shall be drawn from the banks except on order bearing the signature of the President and Secretary empowering the Treasurer to draw a check. However, there are no detailed provisions for use of a voucher system or a review process that would result in a signed order to draw checks, and neither the financial nor the recording Secretary were assigned such financial duties in related sections of the bylaws. As a result, the Board did not implement adequate controls or provide adequate oversight of financial operations.

In addition, the bylaws do not contain authorization for payments to any Association officers, and the Board did not separately authorize any payments in the minutes. The Fire Chief (Chief) and the President receive \$50 per month and the Treasurer and Secretary are annually paid \$225 and \$175, respectively, without written authorization.

The Board also had not adopted a code of ethics as required. Without a comprehensive code of ethics, the Board had not set a standard of ethical conduct for Association business or specified that Association officers are required to disclose all potential interests in Association contracts, with certain exceptions. After we completed audit fieldwork, the Board adopted a code of ethics in February 2018.² However, Association officers had adapted the District's code of ethics for their use, but did not amend all relevant sections to replace District with Association, or to specifically address legal requirements that apply to the Association.

The Board Did Not Enforce Compliance with the Bylaws

The Board did not enforce the limited provisions and procedures that were included in the bylaws. For example:

- The Treasurer did not maintain all accounting records, receive and deposit all money collected or pay all bills.³ He only accounted for the activity in the Association's "main" checking account. The President managed seven other bank accounts⁴ and related receipts, deposits and disbursements and the

² The Chief emailed us a copy of the new Code of Ethics on March 7, 2018.

³ See Records and Reports section for further details.

⁴ Hall Rental, Motorcycle Raffle, Bell Jar, Explorers, Drill Team, Cell Tower Rent and a Miscellaneous account

Chief controlled all activity in the Chief's bank account.⁵ These practices not only violate the bylaws, which assign no such financial duties to the President or Chief, but also eliminate the vital internal control component of having one Treasurer responsible for custody of all funds.

- The Treasurer did not prepare written monthly or annual reports for the activity of the bank account he manages. He verbally reported at monthly meetings the beginning and ending bank balance and total receipts and disbursements for that account for the previous month. The President and Chief gave no verbal or written reports on the financial activity of the accounts they maintained, which encompassed approximately 50 percent of the Association's bank activity (deposits and disbursements).
- Association officers did not deposit all money collected within three days of receipt. Because Association officers did not record the date they received checks, we tested based on the issue date on the face of the check and allowed extra days in case checks had been received by mail. We found that 350 checks received by the Association (70 percent) were deposited more than seven days after their check date, with many deposited significantly later.
- The Board did not appoint a monthly audit committee, nor did it audit claims before payment, or review receipts and disbursements for each month. The lack of a thorough claims audit and approval process increased the risk that Association funds could be spent on unauthorized or non-association expenditures, and led to many of the significant discrepancies discussed throughout this report.
- The President and Treasurer did not both sign all disbursement checks as required. We found that 146 checks (25 percent) totaling \$48,564 did not contain the required dual signatures. All 94 checks totaling \$25,607, from the seven bank accounts controlled by the President, contained only the President's signature, and the Chief signed all 48 checks totaling \$22,121 from his account. The Treasurer and President both signed most checks written against the main account, except for two that were signed solely by the Treasurer (\$550) and two signed solely by the President (\$286). Bills and claims were not reviewed by anyone other than the individual signing the checks.
- The President used two debit cards – linked to two of the bank accounts she controlled – which she also gave to members to make purchases. The debit cards were used to make 21 percent of the Association's disbursements. Therefore, these payments were directly withdrawn from the bank account at the time of purchase, prohibiting review and approval of the purchase

⁵ In 2017, this individual held the Assistant Fire Chief title, but retained control over the Chief's bank account; he was Chief in prior years and again in 2018.

prior to payment. Allowing one person sole responsibility for disbursements without review and approval significantly increases the risk that inappropriate purchases or payments will be made and not be detected, and supersedes the bylaws requirement that the Treasurer make all disbursements.

- The President did not appoint and the membership did not approve an annual audit committee. As a result, neither the Board nor a committee conducted an annual audit of the Associations' financial records. Without an annual audit, there is an increased risk that Association funds could be used for inappropriate purposes and go undetected. Furthermore, if the Board or designated committee attempted to conduct the bylaws-required audit, it should have been in a position to address the fact that the Treasurer was not performing all his financial duties and that no officers were keeping detailed financial records for the fundraisers, activities and bank accounts in their charge.

Due to the lack of any meaningful Board oversight of Association financial activities, the Association was noncompliant with the majority of applicable laws, bylaw provisions and good business practices. As discussed in further detail throughout this report, the lack of suitable records of both receipt and disbursement transactions as well as cash balances limited our ability to test for and determine whether Association funds were used for proper business purposes.

What Are Adequate Accounting Records and Reports?

Fire association officers must maintain all policies, accounting, bank and other records and all supporting documentation (including bills, invoices, receipts and contracts) for all financial decisions and transactions in an organized manner to readily provide information as needed by officers, members, district officials and other agencies or interested parties.⁶

It is essential to have an accounting system in place to properly record all financial transactions and generate accurate financial reports. Adequate accounting records consist of timely maintained journals of all cash receipts, disbursements and other transactions, account ledgers with detailed activity and running balances and other financial documents that provide a complete and accurate account of all receipts and disbursements and cash balances. In addition, the treasurer should perform monthly bank reconciliations to ensure the timely identification and investigation of differences between cash balances recorded in the accounting records and the bank balances. The board or

⁶ In accordance with New York State Not-For-Profit Corporation Law, Section 621, every corporation shall keep, at the office of the corporation, correct and complete books and records of account, minutes of the proceedings of its members and board and a list or record containing the names and addresses of all members.

membership should review bank reconciliations and bank statements monthly to ensure that the expenditures are legitimate. Adequate accounting records and supporting documentation help facilitate timely and accurate monthly report preparation, and enable officers to monitor association finances, including revenues, expenses and net profits for all fundraisers or activities, and ensure adequate funds are available for association operations.

The treasurer is required to file an annual report with the Office of the State Comptroller (OSC) for the association's receipt and use of foreign fire insurance proceeds.⁷ The IRS also requires the association to file an annual information report (Form 990) and to prepare and file 1099s when payments for services to non-employees are at least \$600 during a calendar year. The board is also required by law⁸ to present a report at the annual member meeting detailing assets, liabilities, revenues and expenses and member information.

Association Officers Did Not Maintain Organized and Secured Records

Association officers and members did not ensure that important Association records and supporting documentation for financial transactions were appropriately maintained in an organized manner and sufficiently secured in the Association offices. Overall, Association officers provided minimal requested documentation and much of what they provided was received late in our audit fieldwork.

Specifically, Association officers provided us with very limited documentation for revenues (including hall rentals and various fundraisers).⁹ They also generally could not provide supporting documentation, including invoices, receipts or contracts for cash disbursements.¹⁰ Association officers claimed that most of their records that had been stored in the fire hall, such as support for disbursements and fundraising events, were destroyed due to soda leakage from the upstairs bar. However, they were unable to provide details about the specific records destroyed and the Board minutes did not have any explicit discussion of soda leakage and related record loss. Officers later told us there were multiple leakage and flooding instances. Further, if repeated leakage and flooding instances occurred, officers should have taken more proactive measures to address the situation and move, secure and safeguard Association records.

7 General Municipal Law, Section 30-a

8 Not-For-Profit Corporation Law Section 519

9 See Association Officers Did Not Maintain Records for Fundraising Activities.

10 See Association Officers Did Not Maintain Adequate Support for Disbursements.

Association Officers Did Not Maintain Adequate Accounting Records

The Treasurer did not maintain adequate accounting records to document all Association money received and disbursed, and running cash balances. The Treasurer maintained a manual notebook¹¹ of receipts and disbursements for the “main” bank account. However, we found deposits on the bank statements for this account for which he did not include receipts in his notebook. He also did not maintain a running cash balance and thus was unable to prepare bank reconciliations.

The President and Chief did not maintain financial records for the Association’s other eight bank accounts, beyond the information available through their electronic access to their bank account information.

Association officers told us that they maintained separate bank accounts for various Association activities to be able to use bank statements as their financial records for each activity. However, bank statements generally do not include the detailed information regarding individual receipts and disbursements necessary for adequate accounting records. Additionally, the nine bank accounts were not each used solely for their designated purposes and Association officers did not ensure that all transactions were processed through the bank accounts. For example, the President told us that they did not deposit all fundraising or hall rental revenues as received; they sometimes withheld the cash received and used it to pay related vendors. They did not maintain any record of revenues received, before paying vendors or making deposits, and also did not maintain records of these disbursements that were not made by check. Therefore, the deposits and disbursements listed on the bank statements are not a complete representation of the total revenues and expenses, and the amount by which they are under-stated is unknown.

Furthermore, despite their contention that they viewed bank records as their accounting records, Association officers did not maintain bank statements and canceled check images on file to be available for review by the Board or members. Thus, no officers or members independent of those signing the checks reviewed the bank statements or check images and the Board did not ensure that all financial activity was properly recorded and expenditures were legitimate.

As a result, the President had to request bank statements, canceled check images and deposit compositions¹² for eight bank accounts from the bank, in order to provide them for our review. The President did not acquire bank records

¹¹ Prior to January 20, 2016, the Treasurer recorded deposits and disbursements in a checkbook register with a running balance.

¹² Deposit compositions include – for each deposit made – a copy of the deposit slip and all checks or documents that were included in the deposit.

for the Chief's account and told us that they did not provide oversight of, or have knowledge of the activity in, the Chief's account because she did not view it as an Association account. However, we learned that the Chief's account is linked with the Association's other bank accounts, and that the President had access to it. On our inquiry, she realized that she could access the account, but said she had never done so.

We made numerous requests for bank statements, canceled check images and deposit compositions for the Chief's account, both through the President and directly from the Chief. He eventually provided bank statements and check images on November 17, 2017, for January 2016 through July 2017. However, he did not provide a complete set of records, as bank statements for August and September 2017 were missing along with deposit compositions for all months. On December 21, 2017, the Chief provided the rest of the bank statements and checks through November 2017.

In response to our request for 2016 and 2017 deposit compositions, the Chief provided only copies of deposit slips for the four deposits made in 2017 totaling \$2,700, and did not include the copies of the checks that comprised each deposit. The Chief also did not provide any information for the 2016 deposits which totaled \$20,366. We were able to obtain this information directly from the bank.

We identified additional concerns when reviewing the bank records provided. For example, Association officers did not issue checks in sequential order for two of the accounts.

- For the hall rental account, the President told us that she provides a batch of checks from the hall account check stock to the individual who returns hall rental deposits. Thus, deposit return checks will be out of the sequence of the other checks issued against that account by the President. However, we also found that the other individual signed the President's name on the deposit-return checks, which is not a recommended business practice.
- The Chief told us that he did not have a checkbook and instead obtained a small batch of checks at a time from the bank, and that subsequent batches are not printed from the same check number sequence as the previous batch.

With a proper recordkeeping system, having secured sequential check stock and issuing pre-numbered checks in order helps identify any potential problems or improper disbursements.

The Board Did Not Request or Receive Information Needed to Manage Finances

The Board did not ensure that it had information available to properly manage Association finances. Due to the lack of records and the practice of using fundraising cash for disbursements that did not go through the bank accounts, Association officers did not and could not determine the Association's total revenue or disbursements. In addition to the lack of detailed and complete accounting records for all Association activities and the lack of any meaningful monthly financial reports, neither the Treasurer, nor the Board, or any other officers, prepared an annual financial report as required. As a result, the membership did not have any information to review to make informed financial decisions.

Furthermore, because multiple individuals were involved in making disbursements from multiple bank accounts without accounting records, reports or independent review of bank statement activity, neither the Board nor the membership had any clear or complete analysis of the Association's financial condition. The Board provided no guidance to specify the types, quantities or purposes of bank accounts that should be maintained.¹³ Thus, the Board allowed three different officers to maintain nine different bank accounts, with no guidance for what type of revenue should be deposited to each account or what type of disbursements should be made against each account.

The President maintained seven accounts, but could not tell us what some of the accounts were originally established for, or currently used for. Some of the accounts had very minimal balances and activity. She also said she did not ensure the accounts were only used for the purpose for which they were established, but essentially paid expenses from whichever account had money at the time. For example, for the two accounts with linked debit cards,¹⁴ the President said she used both for the same types of expenditures, and used whichever account had money available when she needed to make a purchase. She told us she did not manage that well either, as she occasionally gave out the wrong debit card, which caused overdraft fees.

The Association maintained a large number of bank accounts for no legitimate business purpose. The Board's failure to review and manage these accounts cost them additional money. The Association's nine bank accounts were set up in a banking relationship that Association operations could not support. Seven of the bank accounts were linked, with a combined minimum balance requirement of

¹³ Except for the limited bylaws provision that requires the Treasurer to deposit all money received by and belonging to the Association in bank(s) designated by the Association.

¹⁴ The Motorcycle Raffle and Miscellaneous accounts

\$50,000, to avoid service fees. The other two accounts each required a minimum balance of \$7,500 to avoid service fees. Because the bank account balances were significantly lower than the required limits, the Association paid a total of \$1,030 for bank service fees. For example, at the end of 2016, the seven linked accounts had a combined balance of \$5,539, and the two separate accounts had balances of \$125 and negative \$8. Additionally, the excessive number of accounts contributed to low individual account balances that, along with mismanagement, caused an additional \$959 of overdraft fees for two accounts¹⁵ from which disbursements often occurred without sufficient available balances.

Although officers had concerns regarding a lack of available funds to meet needs, they did not prepare an annual budget to help manage their expenses and did not improve their accounting records to generate information to monitor. Association officers told us that their new cell tower revenue should help improve their financial position.

Association officers also did not have documentation for insurance coverage or for the lease of a portion of the building to the District. Association officers told us that they had insurance coverage, but did not pay for insurance in the past few years because they were not billed. The lack of proof of adequate insurance coverage exposes the Association and increases the risk of loss. Additionally, without a written lease executed with the District Board of Fire Commissioners, Association officers did not have clear provisions that address the responsibilities and expectations pertaining to building use, maintenance, pricing and terms of payment which could result in confusion, disagreements or non-payment.

The Board did not have even basic records and fundamental business documents available, and did not require vital records and provide essential oversight to appropriately manage the Association's operations.

Association Officers Did Not Maintain Records for Fundraising Activities

The Association conducted various fund raisers or activities to generate revenue, including an annual fund drive, hall rentals, motorcycle raffle, turkey raffles, comedy night, a Fourth of July event and a winter parade, where food was also sold. Association officers did not maintain or provide records necessary to identify how much money was collected for the various fundraising events or activities. Fundraising records should include the startup money provided, receipts from each event activity, amounts disbursed (with supporting invoices or receipts) and net proceeds deposited. Also, when applicable, officers should maintain records of the amounts of event or food tickets printed (which should be pre-numbered),

¹⁵ The Hall Rental account and the Miscellaneous account with the debit card

sold and the remaining inventory. Records should tie in related deposit amounts to the total tickets sold.

Association officers provided very little information related to fundraising activities, as follows:

- The President was able to provide fund-drive contribution stubs for 2017, but stated those for 2016 were destroyed.
- The President was only able to provide hall rental agreements for nine of the 25 hall rentals identified from the 2016 and 2017 hall rental calendar (all but one rental from April through September 2017, but nothing prior to April 2017). Also, the hall rental agreements were not sufficiently detailed. For example, the agreements did not indicate whether a bar package was purchased, so we were unable to determine the total amount of the rental fee.
- For the turkey raffle, pre-numbered raffle tickets were not used in 2016. Although the President told us that they started using numbered tickets in 2017, she could not provide any supporting documentation, or record of the number of turkeys purchased or raffled.
- For the motorcycle raffle, the President told us that the Association had ordered pre-numbered tickets, but did not keep a record of those distributed and sold.
- There were no records for admission tickets sold for comedy night or for money received from the 4th of July activities.
- While concessions were sold at the turkey raffle, comedy night and winter parade, officers and members kept no records of food purchased or sold, vendors paid or revenues deposited from these events.
- Detailed profit and loss statements were not prepared for any events detailing the startup money provided, receipts from each event or activity, amounts disbursed (with supporting documentation) and net proceeds deposited or - when applicable - the amounts of food purchased, sold and remaining inventory.

We reviewed all deposits totaling \$178,423 (excluding transfers¹⁶) for the period January 1, 2016 through September 30, 2017 into all the Association bank accounts. Due to the lack of records and supporting documentation, we requested and reviewed deposit compositions from the bank, but were unable to determine the activity that generated all deposits, such as specific fundraisers or hall rental receipts. Also, receipts were not always deposited intact because certain

¹⁶ All transfers were traced to other Association accounts.

expenses were paid directly with cash from fundraising proceeds. For example, the President told us they often spent cash received from hall rentals or events, to restock the bar, instead of depositing all money received and paying vendors by check.

Good business practices dictate that all money collected since the last date of deposit should be deposited together in the same form as received to provide accountability. More significantly, we were unable to determine whether all receipts were deposited or used for Association purposes. Without adequate financial records and reports, the Board and membership did not have sufficient information to oversee financial operations which increased the risk for errors and unauthorized expenditures to occur and remain undetected.

Association Officers Did Not Maintain Adequate Support for Disbursements

We reviewed all 591 disbursements totaling \$165,010 from the Association's nine bank accounts from January 1, 2016 through September 30, 2017. However, due to insufficient records and inadequate business practices, this does not represent all Association disbursements, as transactions occurred that did not go through the bank accounts. For example, withdrawn cash could have been redeposited and cash from fundraising or other activities was used for disbursements without any record or supporting documentation. The practice of paying vendors in cash circumvents good business practices by eliminating accountability over both revenues and expenditures.

We found that 380 disbursements (64 percent) totaling \$120,217 did not have any supporting documentation. Another 18 disbursements (3 percent) totaling \$3,168 had minimal documentation that was not adequate¹⁷ to determine what was purchased or for what purpose.¹⁸ Further, most of the vendors paid by the Association provide types of goods or services that could also be used for personal purposes, which increases the need to maintain adequate support that clearly documents the business purpose and appropriate approval.

Unsupported disbursements included:

- 17 checks to cash totaling \$26,380 and 18 cash withdrawals totaling \$7,403. While some of the cash may have been used for fundraising, such as for a change fund and prizes, or redeposited after the event, we were unable to determine this due to the lack of records. Without records in place to keep

¹⁷ Most were only supported with vendor statements, and not itemized invoices.

¹⁸ The other 33 percent were primarily utility payments made by the Treasurer and 85 bank fee deductions noted on bank statements.

track of cash withdrawn from the bank, the chances for misappropriation significantly increase.

- 92 vendor payments, totaling \$22,419, made by check from the hall rental account. While vendors and purchases varied, many payments were to beverage distributors to stock the bar, as well as for building maintenance or cleaning supplies, etc.
- All 48 Chief's account disbursements totaling \$22,121,¹⁹ including three checks totaling \$1,140 he wrote to himself for purported reimbursements.²⁰
- 124 (of 125) debit card purchases totaling \$12,093. There were no supporting invoices or other documentation to identify the items purchased or their purpose from a variety of food and retail vendors.
- All seven disbursements, totaling \$4,679, from the drill team bank account. These included a \$300 unsupported check to the Chief with check memo of "pump" and three vendor payments totaling \$1,310, with no supporting invoices. The other three checks, to an individual, totaling \$3,069 appeared to be monthly installment payments for an Association truck purchase. We also noted two additional unsupported payments, to the same individual in the same amount, one each from the main account and the Chief's account. No officers provided any invoices, purchase contract, loan agreement or any other information to support these payments, nor could they tell us how much the truck cost or how many monthly payments had been made.
- Two checks totaling \$1,950 written from the Association's main account to the "Sea Breeze Fire Dept" in July and August 2017 for the drill team. These checks were deposited into the Chief's account instead of the drill team account. Disbursements from the Chief's account in these months totaled \$1,825, including two cash withdrawals totaling \$1,600. The other two check disbursements totaling \$225 appear to be for drill team registration fees, but there was no documentation to support this. Additionally, the Association was unable to provide a legitimate business explanation as to why these checks were deposited to, and some drill team activity was transacted through, the Chief's account.

The lack of proper disbursement controls creates an opportunity for inappropriate and unauthorized disbursements and withdrawals. Further, because no one independent of the check signers reviews bank statements or canceled checks, the Association is at increased risk that checks could be issued and cash transferred and disbursed without proper approvals.

¹⁹ Includes one \$500 check to cash and four cash withdrawals totaling \$2,670

²⁰ See The Chief's Bank Account Activity Lacked Sufficient Support for information on additional documentation the Chief eventually provided, which was still insufficient.

The Chief's Bank Account Activity Lacked Sufficient Support

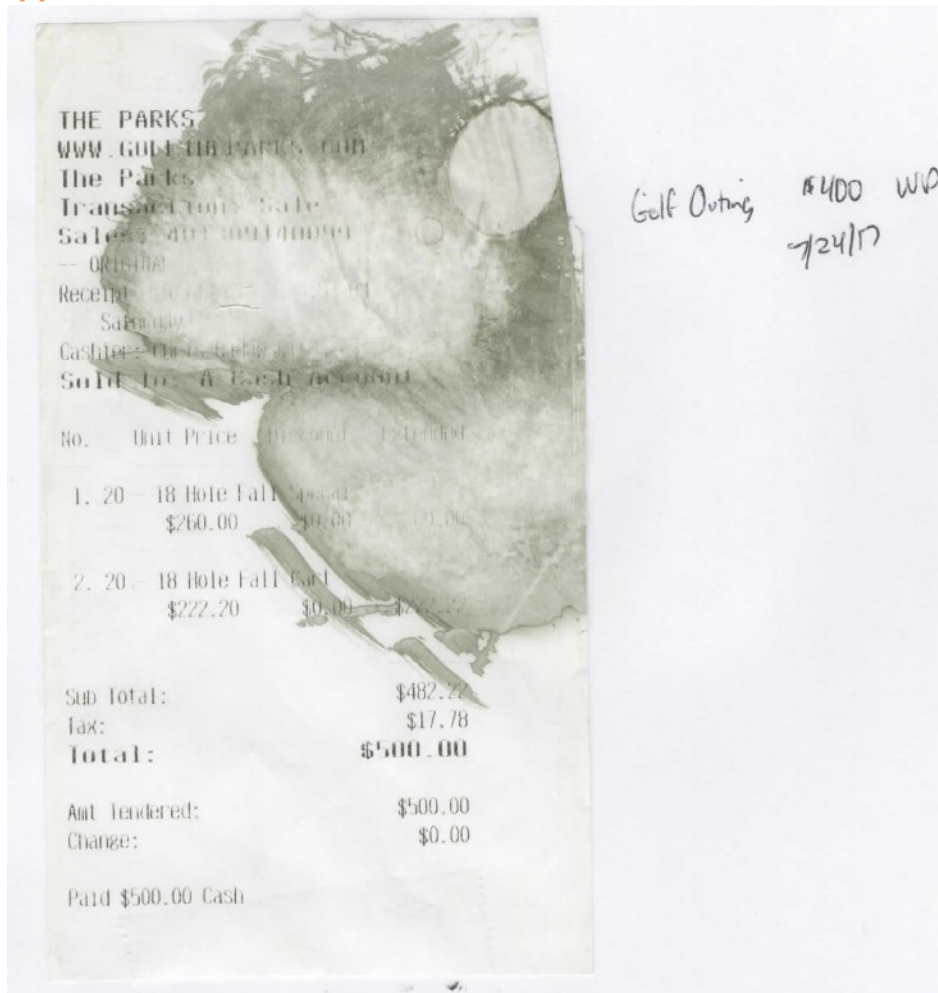
We made multiple requests to the Chief for bank records and eventually obtained records directly from the bank. We also made multiple requests to the Chief for supporting documentation for various account expenditures. The Chief was unable to provide supporting documentation and did not have original records. We met with the Chief and the President on February 22, 2018 at the end of our fieldwork, to attempt to get support or explanations for certain account expenditures. The Chief told us that he had just obtained a few invoices from the vendors and salvaged a few other receipts, which he provided to us at the meeting, or in a subsequent email. However, we found the documentation was limited and insufficient:

- To support a \$680 check written to himself on March 10, 2016 for “reimbursement - March Trucks,” the Chief provided a pre-numbered receipt (612052) signed by himself that listed four item descriptions and dollar amounts that added to \$680, supported by two vendor receipts for a battery and food totaling only \$88, shown in Figure 1. Further, the dates of the receipts were illegible so there is no way to confirm that the purchases were made around the time the check was written.

- The Chief provided a \$500 vendor receipt that appears to be from a golf course to support a \$400 cash withdrawal made on July 24, 2017, as shown in Figure 2. However, the date and vendor on the receipt were illegible, making it difficult to correlate the receipt with the withdrawal.

FIGURE 2

Support for \$400 Cash Withdrawal



- We requested support for two checks written from the Chief’s account to an individual who is a District Commissioner:
 - For a \$400 payment on October 8, 2016 with memo “Truck Work”, the Chief stated that it was for brake replacement on a trailer, and later provided a receipt he had signed, from a duplicate receipt book, dated “3/2016” for \$400 for “Trailer Work.” We note that the pre-numbered receipt (612051) immediately preceded the one he prepared (dated

March 2016) for a \$680 check to himself (discussed previously).

Furthermore, a reimbursement should be supported by a vendor receipt or invoice for items purchased or work performed, not a duplicate receipt written by the Chief, which is generally used to support cash received.

- For a \$900 payment on December 29, 2016 with memo “supplies,” the Chief provided a typed receipt dated December 1, 2016 that listed various pieces of furniture and told us that the Commissioner did not run a furniture business but sold the Association some items he did not need anymore.
- The Chief deposited a \$2,000 check – dated May 9, 2016 from the District written to the Sea Breeze Fire Department for the drill team – into his account instead of the drill team account. At our meeting, the Chief provided an expense reimbursement form – which he told us he’d just created - and various invoices he had recently obtained from the vendors he claimed were paid with the \$2,000 District contribution for the 2016 drill team. However, most of the invoices provided did not correspond to disbursements made from the Chief’s account or checks from any other Association account. The Chief did not provide a sufficient business explanation as to why he deposited the drill team check into his bank account, and why he could not provide support for \$2,000 in drill team expenses paid from that account.

We found that the District’s 2017 contribution toward drill team expenditures was also not accounted for in the drill team bank account, but instead was paid to and managed by a District Commissioner separately from the Association’s accounts.

We also asked the Chief, during our February 2018 meeting, about supporting documentation for various other activity in his account for which he did not provide additional documentation or explanation, including the following:

- A \$400 check dated August 21, 2016, written to himself from his Chief’s account for “expense reimbursement.” The Chief said it had to be for fuel costs to travel to Long Island for the drill team competition, but provided no documentation to support this.
- An \$800 check dated August 18, 2016, paid to an individual, with memo “State 2016”. The Chief said this individual is a food vendor they used while in Long Island for the drill team competition. We further question why this and the previous disbursement were not made from the Association’s drill team bank account, based on the President’s representations that they had separate accounts for each activity in order to keep separate records of receipts and disbursements.
- A \$6,000 cashier’s check issued against the Chief’s account on November 16, 2016 to an individual who owns an auto repair shop (was not written to

the business). The Chief said he would have to look for invoices or other supporting documentation. We told the Chief we had also identified – from the deposit compositions – an insurance claim check totaling \$6,431 issued to the District (not the Association) that was deposited into the Chief’s account and used to cover the \$6,000 auto repair. On our inquiry, the Chief told us that the insurance check was for repairs of accident damage to his chief’s vehicle, and that he was instructed to deposit the check into his account by two District Commissioners (including the Chairman) due to time constraints on getting a District check written. However, the District Board Chairman told us that he did not recall an accident or insurance claim, and was not aware that this check was issued to the District or deposited into the Chief’s account. The Chief’s vehicle, along with other District vehicles and apparatus, are the property and responsibility of the District. The Chief should not have deposited an insurance recovery check, or any check written to the District, into his account, and must ensure the District is fully aware of all vehicle-related incidents. The Chief did not provide any supporting documentation for this vehicle repair expense. It is unclear if repair work was performed and how the remaining \$431 of the District’s insurance recovery was spent.

- Nine payments made to an individual,²¹ almost monthly, that totaled \$1,606. The Chief included no description in the memo section on eight of the checks, which averaged \$162, and provided no supporting documentation.²² The Chief told us they were payments to cover his lawyer fees and provided no additional information. When we spoke to the President on the same day, she said the Association had not made payments for attorney fees to this individual or any other attorneys, to her knowledge, during our audit period, and that the Association has not had recent need for legal services. Based upon the President’s response and the lack of support from the Chief, there are no assurances that these expenditures by the Chief were for appropriate Association purposes.
- The Chief was also unable to provide supporting documentation or sufficient business explanations for the various cash withdrawals or check made out to “cash” from his account.

The Board did not oversee any activity in the Chief’s account, the majority of which is not supported. The Board’s failure to enforce bylaw requirements that the Treasurer maintain custody of all Association money, make all disbursements and prepare adequate records and reports increased the risk that account expenditures are not for legitimate Association purposes.

²¹ The same individual who received truck purchase payments discussed previously

²² One \$310 check had “Trailer” in the memo section.

The Treasurer Did Not Make Mandatory Filings

The Treasurer did not file Form 990 with the IRS. Association officers told us that they were not aware of the filing requirement. We also found that the President and Chief were paid \$600 each year and an attorney was paid more than \$1,000 in 2016, but the Treasurer did not prepare and file 1099s for payments made to these individuals.

In addition, the Treasurer, or other Association officers, did not file a report of the foreign fire insurance premium tax funds as required. These funds were electronically deposited into the Chief's account and he told us that he knew of the filing requirement, but did not file the reports for the last couple years. The President and Chief told us that they were aware these proceeds are to be used for the benefit of the members and that they were used for the banquet. For 2016, the Chief provided a list of payments from these funds, the total of which exceeded the \$2,293 foreign fire insurance proceeds. The list included a \$1,500 transfer to the hall rental account, presumably to cover banquet costs, and a \$516 (unsupported) purchase of banquet plaques for members. However, the list included multiple non-banquet expenditures related to the drill team – which does not include all general members. Thus, the Chief did not have itemized documentation for proper expenditures of the insurance proceeds and instead created and provided this list in response to our inquiry, which included inapplicable costs. Furthermore, he did not provide any documentation for how the funds were spent in 2017. Therefore, the Board has not adequately monitored, and has no assurance of, the appropriate use of foreign fire insurance proceeds.

Without comprehensive financial reports related to all Association activities, fundraising revenues and disbursements, the membership does not have sufficient information to review and monitor activity and make informed financial decisions, and lacks any assurance that Association officers have appropriately handled all association resources.

What Do We Recommend?

The Board should:

1. Amend its bylaws or adopt separate written financial policies and procedures over key financial areas including cash receipts, purchasing, claims audit and approval, cash management, monthly and annual reporting and annual audits.
2. Monitor and enforce compliance with all bylaws and policy provisions to provide oversight of Association operations.

-
3. Formally authorize any stipends or other payments to be made to officers.
 4. Appoint a committee to audit all claims prior to payment and ensure that all claims have appropriate supporting documentation before they are approved for payment.
 5. Amend the code of ethics to eliminate District references and fully address the Association's needs and legal requirements applicable to the Association.
 6. Appoint, by membership approval, an annual audit committee and ensure the committee performs an annual audit of the Association's books and records.
 7. Consider ending the use of debit cards for Association purchases, to lessen the risk of unauthorized expenditures or, at a minimum, adopt a policy governing and significantly limiting debit card use to certain necessary types of expenditures.
 8. Develop and adopt an annual budget, and monitor it against actual operations to control the Association's spending and manage its financial condition.
 9. Execute a written lease agreement for the portion of the building leased to the District, to clarify responsibilities and expectations and establish agreed upon required rental payments.
 10. Pay for and obtain documentation for adequate insurance coverage. Further, the Board should ensure sufficient bonding for its Treasurer and for all other individuals who handle cash.
 11. Ensure that appropriate financial records are maintained in a secure, protected environment.

The Treasurer should:

12. Manage all bank accounts and handle all receipts and disbursements as required by the bylaws.
13. Make timely deposits of all money collected for all Association purposes.
14. Issue all checks for Association disbursements, in sequential order, and ensure they are all signed by the Treasurer and President.
15. Prepare and maintain adequate records and reports to account for all revenues and expenditures in all bank accounts.

-
16. Prepare monthly bank reconciliations for all accounts and provide them to the Board or membership with bank statements and check images for review.
 17. File required reports including the foreign fire insurance annual report, Form 990 and 1099s for individuals paid \$600 or more for services provided during the year.

Association Officers should:

18. Maintain adequate supporting documentation for hall rentals, fundraisers and other receipts.

Appendix A: Response From Association Officers

Sea Breeze Volunteer Fire Association, Inc

4657 Culver Road ~ Rochester, New York 14622 ~ (585) 323-1040

Attention: Cheif Examiner of Office of the State Controller,

02/01/2021

We intend for this to be our audit response and CAP response. We agree with most of the findings from the audit, per our conversation on 01/19/2021. We have been making improvements we have amended and removed bylaws that were not pertinent to the Association. We believe these old bylaws were the cause of many infractions, besides our lack of knowledge.

CAP Recommendations:

#1 and #2: The board is presenting multiple changes to our bylaws on 2/21/2021. They will be posted for 30 days then voted on on 03/02/2021.

#3: All stipends and monthly payments were voted on over 25 years ago. We do not believe these documents can be located.

#4: Monthly audit will be done by an audit committee, then will meet with the board during Board Meeting.

#5: Code of ethics, we have decided to eliminate district reference.

#6: Annual audit committee will contain five members, lead by the vice president.

#7: We have one debit card for the purpose of building supplies, keys for building, refreshments, and food for monthly meetings all receipts are saved.

#8: Budget has been adopted, please see attachment.

#9: Lease agreement meeting between association and commission meeting was held on 01/21/2021, and will be being voted on by both association and district.

#10: Getting Treasurer bonded through [REDACTED]

~Organized October 8, 1908~

Sea Breeze Volunteer Fire Association, Inc

4657 Culver Road ~ Rochester, New York 14622 ~ (585) 323-1040

#11: The board room has been made more secure and protected, there is no more soda above the room.

#12-#17: Treasure has acquired [REDACTED] and will be taking over the hall account. Association bought two computers for organizational purposes three years ago.

Thank you

April H. Hendel

Date

Sea Breeze Volunteer Fire Association President

~Organized October 8, 1908~

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Association officers and members and reviewed Board minutes to gain an understanding of the Association's operations.
- We reviewed the Association's bylaws for adequacy and to determine whether they were being enforced.
- We reviewed the Association's articles of incorporation and limited financial records.
- We reviewed all 591 disbursements totaling \$165,010 from the bank statements and canceled check images obtained directly from the bank for the period January 1, 2016 through September 30, 2017. We compared them to the financial records and available supporting documentation, such as invoices and receipts, to determine whether they had adequate support, were appropriate Association expenditures and were audited prior to payment.
- We reviewed all bank account transfers for the period January 1, 2016 through September 30, 2017 to determine whether they were appropriately transferred to other Association bank accounts.
- We reviewed deposit compositions obtained from the bank totaling \$178,423 between January 1, 2016 and September 30, 2017. We attempted to trace deposits to available records such as contribution stubs and rental agreements. However, due to the lack of records for receipts, including fundraising, we were unable to trace all deposits to recorded receipts or other supporting documentation.
- We estimated and analyzed the Association's financial condition from bank activity and year end bank balances.

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.

The Board has the responsibility to initiate corrective action. We encourage the Board to prepare a plan of action that addresses the recommendations in this report and forward the plan 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 Board to make the CAP available for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/local-government

Local Government and School Accountability Help Line: (866) 321-8503

ROCHESTER REGIONAL OFFICE – Edward V. Grant Jr., Chief Examiner

The Powers Building • 16 West Main Street – Suite 522 • Rochester, New York 14614-1608

Tel (585) 454-2460 • Fax (585) 454-3545 • Email: Muni-Rochester@osc.ny.gov

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