



West Glens Falls Fire Company #1 Financial Operations

Report of Examination

Period Covered:

January 1, 2012 — September 30, 2013

2013M-383



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2014

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 West Glens Falls Fire Company #1, 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The West Glens Falls Volunteer Fire Company #1 (Company) is a volunteer organization located in the Town of Queensbury (Town). The Company provides fire protection for the western area of the Town. The Company is operated in accordance with its by-laws. The Board of Directors (Board), which is responsible for the Company's overall general and financial affairs, consists of the President and seven elected Directors. As of the end of the 2012 fiscal year, the Company had received approximately \$618,000 in revenue, including \$535,547 from the Town of Queensbury and \$15,819 in foreign fire insurance, and had disbursed approximately \$687,000.

The Company is affiliated with the Fire Fighters of West Glens Falls Association (Association), which is a separate not-for-profit corporation operated in accordance with its own by-laws. The Association was formed by the Company in January 2007 for the purpose of owning real and personal property, accepting public and private donations, acquiring facilities and equipment, and expending or bequeathing money for the use of the Company.

Scope and Objective

The objective of our audit was to evaluate internal controls over the Company's financial operations for the period January 1, 2012 through September 30, 2013. We also reviewed the Company's expenditures of foreign fire insurance moneys back to the 2011 fiscal year to determine if they were used appropriately. 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?

Audit Results

The Board did not provide adequate controls over Company financial activities. The Board has not adopted written financial policies and procedures over cash receipts and disbursements and did not provide adequate oversight of the Treasurer's work, such as reviewing her bank reconciliations. Because the Board did not monitor the Treasurer's activities or the activities of individuals who participate in fund-raising events, Company funds were vulnerable to theft and misuse. For example, the Company sold soda, beer and food tickets at the 2013 Hudson Valley Volunteer Fireman Association (HVVFA) convention and deposited \$21,748 from these sales. However, Company officials did not maintain any record of the numbers of tickets sold, which would have allowed officials to reconcile the number of tickets printed for the event to actual tickets sales and bank deposits. Also, Company officials disbursed approximately \$1,100 that they had raised from car wash events, but have no record of how these moneys were spent.

The Company's controls over claims processing were weak. Supporting documentation did not exist for all Company disbursements. For example, on October 2, 2012, the Company paid \$2,000 to a local ski center. Though Company officials told us this claim was for a "morale boosting" member dinner, the claims folder did not contain any receipt or other documentation, such as a menu, invoice, or list of participating members, for this event. Also, the Board does not have a clear indication or record of what claims it had approved for payment. For 27 of 114 disbursements totaling \$22,282 that were paid in 2012, Company officials were unable to provide us with receipts or invoices to indicate the content of and/or reason for the claims.

The Board did not ensure that the Treasurer prepared and submitted the required Company annual report, or filed the annual foreign fire insurance report in a timely manner. In addition, the Treasurer does not submit monthly financial reports to the Board that provide the current status of the budget (budget-to-actual reports), current bank balances or any other related financial information. As a result, the Board did not know the current status of the Company's finances and budget status from month-to-month, which led to the Company over-expending budgetary accounts during 2012 and 2013.

The Company improperly transferred custody of \$15,819 in foreign fire insurance tax proceeds received in 2012 to the Association. Consequently, the expenditure of these moneys was not reviewed by the Company's Board prior to their expenditure, and these expenditures were not accounted for in the Company's accounting records. In 2011, the Company received \$14,053 in foreign fire insurance proceeds. However, Company officials were unable to provide us with receipts related to the expenditure of all \$14,053 of the proceeds. Therefore, the Board, Company members, taxpayers and other interested parties do not have complete assurance that the foreign fire insurance proceeds were used in an appropriate manner.

In addition, the Company is accounting for fund-raising moneys in the Association's records. During our audit period the Association deposited \$15,819 from foreign fire insurance proceeds, \$12,310 in HVFFA reimbursements and \$5,420 in fund-raising revenues into its bank account. By depositing Company revenues into the Association's account, the Company is underreporting available revenues and resources, in effect hiding revenue from the Town, taxpayers and other interested parties. As a result, the Town and taxpayers may be paying more than necessary for fire protection services.

Comments of Local Officials

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.

Introduction

Background

The West Glens Falls Volunteer Fire Company #1 (Company) is a volunteer organization located in the Town of Queensbury (Town). The Company provides fire protection for the western area of the Town. The Company is operated in accordance with its by-laws. The Board of Directors (Board), which is responsible for the Company's overall general and financial affairs, consists of the President and seven elected Directors.¹

The President is the Company's chief executive officer. The Company also has a Treasurer, who is the Company's chief fiscal officer. The Company owns a fire station (Station 1, located at 33 Luzerne Road), trucks, all its fire gear, and the furniture and appliances in Station 1. It also owns all the furniture and appliances in another fire station (Station 2, located at 445 Luzerne Road²) that it leases from the Fire Fighters of West Glens Falls Association (Association).

The Company is affiliated with the Association, which is a separate not-for-profit corporation operated in accordance with its own by-laws. The Association was formed by the Company in January 2007 for the purpose of owning real and personal property, accepting public and private donations, acquiring facilities and equipment, and expending or bequeathing money for the use of the Company. It is governed by a President and six Directors, which consists of the Company's seven Directors. One of the seven Directors serves as the Association's President. The Company President is not a member of the Association's Board. Also, Company Directors may hold different offices (President, Vice President, Secretary and/or Treasurer) on the Association's Board, than they do on the Company's Board.

As of the end of the 2012 fiscal year, the Company had received approximately \$618,000 in revenue, including \$535,547 from the Town of Queensbury and \$15,819 in foreign fire insurance, and had disbursed approximately \$687,000.

¹ The Directors are elected by the members of the Company, and at the time of our audit, two Director positions were vacant.

² On October 1, 2007, the Company entered into a promissory note (note) with the Association in which the Association agreed to pay the Company a sum of \$400,000 for Station 2 and its surrounding property. The terms of the note require annual payments from the Association to the Company totaling \$40,000 for a term of 10 years. The Company then entered into a lease-back agreement with the Association for use of Station 2 at an equal annual sum of \$40,000. According to Company officials and Association records, the purpose of this arrangement was to protect this Company asset, which was originally constructed with fund-raising moneys.

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 January 1, 2012 to September 30, 2013. We also reviewed the Company's expenditures of foreign fire insurance moneys back to the 2011 fiscal year to determine if they were used appropriately.

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 Local 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. Further, the Company used the Association's account to deposit moneys and purchase items for the Company that were not approved by the Board, overseen by the membership, or recorded in the Company's financial statements, which conceals those transactions from members, taxpayers and other interested parties.

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, consisting of policies and procedures, to ensure transactions are authorized and properly recorded and financial reports are accurate and reliable. Also, the Board should ensure that the Treasurer submits and files required annual reports, such as the Company annual report and the annual foreign fire insurance report, on a timely basis. In addition, the Board should ensure that the Treasurer provides it with monthly financial reports that include all receipts and disbursements, cash balances, and a comparison of budget-to-actual variances. Financial reports enhance the Board's ability to oversee financial activities and monitor the Company's budget.

The Board did not provide adequate oversight of Company financial activities. The Board has not adopted written financial policies and procedures over cash receipts and disbursements and did not provide adequate oversight of the Treasurer's work, such as reviewing her bank reconciliations. Also, the Board did not ensure that the Treasurer prepared and submitted the required Company annual report, or filed the annual foreign fire insurance report in a timely manner. In addition, although the Company has annual budgets for 2013 through

2015,³ the Treasurer does not submit monthly financial reports to the Board that provide the current status of the budget (budget-to-actual reports), current bank balances or any other related financial information.

A lack of controls provides an opportunity for abuse. Because the Board has not established adequate policies and procedures for controlling cash receipts and disbursements, Company officials did not properly account for the receipt and disbursement of fund-raising proceeds. In addition, because the Board did not monitor the Treasurer's activities or the activities of individuals who participate in fund-raising events, 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.

Fund-Raising

The Board should establish procedures to ensure that all funds received from fund-raising events are properly accounted for and recorded. Cash reports and duplicate receipts should be maintained for each fund-raising activity and reconciled accordingly to deposits. Company officials should prepare and remit collection records and reports on all fund-raising events to the Board for its review. Also, Company officials should deposit all fund-raising moneys into the Company's bank accounts.

The Company held various fund-raising activities including car washes, shirt sales and hosting the 2013 Hudson Valley Volunteer Fireman Association (HVVFA) convention. However, it did not establish adequate internal controls over these fund-raising activities. Company officials could not provide us with any fund-raising reports or collection records. Also, the Company did not have any duplicate receipts available to document transmittal of funds for the activities or events between individuals or officials. Further, the Company does not deposit all fund-raising money into a central bank account. According to Company officials, these moneys are deposited into either one of three Company bank accounts or the Association's bank account, or are held in a Company safe and used to pay in cash for items needed for a particular purpose.

HVVFA Convention – In June 2013, the Company held the HVVFA convention at Station 1. Prior to the convention, the Company purchased 625 shirts for \$6,921 to resell as a means to raise money for the convention. However, Company officials did not maintain

³ The Company's three-year fire protection contract with the Town includes an annual budget for each year. The current contract covers the period January 1, 2013 through December 31, 2015.

any records of the number of shirts sold and/or given to members, which would have allowed officials to reconcile the number of shirts purchased to shirts sold and given away and to the amount deposited from the sales of the shirts. Also, the Company did not prepare or remit a report of revenues and expenses from the shirt sales to the Board.

During the four-day convention, the Company sold soda, beer and food. To limit the handling of cash, three members sold pre-numbered soda, beer and food tickets to convention attendees. According to daily deposits made during the event, the Company deposited \$21,748 from these sales. However, Company officials did not maintain any record of the numbers of tickets sold, which would have allowed officials to reconcile the number of tickets printed for the event to actual tickets sales and bank deposits.

Company officials did not require Company personnel to use duplicate receipts to document the transmittal of cash between the members who collected cash and the member making the deposits for the food and beverage or shirt sales. According to deposits into the Company's and Association's bank accounts, the event collected \$54,208 and incurred expenses of \$33,993. However, Company officials did not prepare or remit collection records or reports on this event to the Board for its review.

Furthermore, included in the \$54,208 was \$12,310 that the Company received from the HVVFA as reimbursement for expenses incurred by the Company for hosting the event. However, these moneys were not deposited into the Company's bank account, but rather into the Association's account. Although the Association contributed \$2,000 toward event entertainment, the Company signed all event contracts and paid all bills associated with the event. The deposit of the HVVFA reimbursement into the Association's bank account results in an under-reporting of the revenues earned from this event to Town officials – who contributed \$12,500 of Town moneys to this event – the Board, Company members, taxpayers and other interested parties.

Other Fund-Raising Events – The Company also held car washes and other events to raise money. While collection records were not maintained for these events, the Company sometimes prepared a sign-in sheet for members participating in these events. For 2012, we indentified nine event sign-in sheets. However, because the Company did not retain collection records, we could not trace moneys raised during these events to related deposits in the Company's bank accounts. The earliest deposits made into the Company's fund-raising accounts after these events were 27 to 90 days after the date the event was held.

Company officials told us that they placed collections from 2013 car wash events in a Company safe at the Station 1 and spent the moneys as needed. We found that the Company had collected and disbursed approximately \$1,100 of these car wash moneys for funeral bunting and other Company-related items. These disbursements were not accounted for in the Company's accounting records, or audited and approved by the entire Board prior to payment. Because these moneys were never deposited and recorded, and the related purchases were not processed through the Company's claims processing procedures, the Company has no record of how these moneys were spent, and therefore, has no accountability to the Board, Company membership, Town or taxpayers for these transactions.

The Company's failure to account for the receipt and disbursement of fund-raising proceeds, and its failure to deposit the proceeds into a Company bank account, are significant control weaknesses that substantially increase the risk that fund-raising moneys could be lost or misused and remain undetected.

Claims Processing

The Company's by-laws require the Treasurer to obtain authorization from the Board when paying claims against the Company. It is important that the Board review and approve claims prior to payment to ensure that Company moneys are used for legitimate expenditures. The Board also should ensure that the Company Secretary records the claims that have been approved in the minutes of the Board's proceedings.

Several Board members told us that they reviewed the monthly claims and approved monthly motions authorizing the Treasurer to pay claims. However, Board members do not sign the claims – and the Treasurer does not prepare an abstract (list) of the claims for Board members to review and sign – as evidence of their approval. Also, the monthly motions do not identify the claim numbers and amounts being approved for payment. As a result, we could not determine if all claims were audited and approved by the Board prior to payment.

We reviewed all 114 check disbursements totaling \$123,371 made by the Company during May, July and October 2012 to determine if they were properly supported by detailed receipts and/or invoices and were for a valid purpose. We also examined 50 check disbursements totaling \$73,118 made during the period January 1, 2013 through September 30, 2013. All disbursements appeared to be for legitimate Company purposes.⁴

However, for 27 of the 114 disbursements totaling \$22,282 that were paid in 2012, Company officials were unable to provide us with

⁴ Refer to Appendix B for further information on our sample selections.

receipts or invoices to indicate the content of and/or reason for the claims. Also, for six of the 50 disbursements totaling \$5,587 paid in 2013, the attached receipts did not include sufficient detail to indicate the content of and/or reason for the claims. For example, on October 2, 2012, the Company paid \$2,000 to a local ski center. Though Company officials told us this claim was for a “morale boosting” member dinner, the claims folder did not contain any receipt or other documentation, such as a menu, invoice or list of participating members for this event.

Because supporting documentation did not exist for all Company disbursements, the Board would be unable to determine whether the related claims were appropriate Company expenditures. Also, because the monthly motions included in the Board minutes did not indicate the claims numbers or dollar amounts being approved for payment, the Board does not have a clear indication or record of what claims it had approved for payment.

Records and Reports

The Treasurer must maintain complete, accurate and timely records to account for all of the Company’s financial activities properly. It is important that key financial duties, including authorization, recordkeeping, custody and disbursement, be segregated so that the work of one individual is routinely verified in the course of another individual’s work. If it is not feasible to segregate incompatible duties, the Board must implement compensating controls, including appropriate oversight of the work performed by the individual who is performing incompatible duties. The Treasurer should prepare and submit monthly reports to the Board and is required by the Company by-laws to prepare and submit an annual financial report of the Company’s financial activities to the Board at the annual meeting.

The Treasurer maintains the accounting records and prepares, prints, signs and mails checks. She also prepares the bank reconciliations. The Board has not established any compensating controls over the Treasurer’s work, such as having a Board member open the bank statements, review the cancelled checks and compare them to Board-approved claims or counter-signed checks. Because the Treasurer can initiate transactions, make accounting entries and perform bank reconciliations, there is a risk that inappropriate transactions could be initiated and hidden.

Also, the Treasurer does not routinely prepare monthly reports for the Board. During 2012 the Board received monthly reports only in March, April and July. As of September 2013, the Board had received only one budget-to-actual report (for the period ending April 2013). As a result, the Board did not know the current status of the Company’s finances and budget status from month-to-month, which led to the

Company over-expending budgetary accounts during 2012 and 2013. During 2012, the Company exceeded its budget in 17 accounts and exceeded its overall budget by \$79,415. Also, as of September 30, 2013, the Company had exceeded its budget in eight accounts; however, total spending was still under the Company's overall budget of \$558,879. The Board was unaware that the Company had exceeded its overall budget in 2012 because the Treasurer did not submit an annual financial report of the Company's financial activities to the Board at the annual meeting.

The Treasurer was unaware of the monthly and annual reporting requirements. She indicated that she is working with the Board to develop a form and structure for future reporting to the Board.

Foreign Fire Insurance Tax Proceeds

General Municipal Law requires fire companies that receive and use foreign fire insurance tax proceeds⁵ to file an annual report with the Office of the State Comptroller (OSC) regarding the receipts, expenditures and balances relating to these moneys. The Company may spend this money on any purpose as long as it benefits the members, such as paying for the Company's annual member banquet. However, the Company cannot transfer custody of the foreign fire insurance tax proceeds to a firemen's association, unless authorized or required by a special law.

The Company improperly transferred custody of \$15,819 in foreign fire insurance tax proceeds received in 2012 to the Association.⁶ Also, the Treasurer has not filed the required annual report related to these moneys with OSC for 2011 and 2012. Company officials told us that they believed the former Treasurer had filed these reports.⁷

The Company received \$15,819 from the Town on July 2, 2012 for foreign fire insurance and issued a check to the Association for the same amount on November 19, 2012. Consequently, the expenditure of these moneys was not reviewed by the Company's Board prior to their expenditure, and these expenditures were not accounted for in the Company's accounting records. The Association's Treasurer provided us with an accounting of how the 2012 moneys were spent which appear to have been for appropriate purposes.

In 2011, the Company received \$14,053 in foreign fire insurance proceeds. The Company accounted for the expenditure of these

⁵ These proceeds must be distributed pursuant to Insurance Law.

⁶ The transfer of custody of these moneys from the Company to the Association was not authorized or required by a special law. Therefore, the transfer of these moneys to the Association was inappropriate.

⁷ The Company had three Treasurers during our audit period. The most recent Treasurer took office early in 2013.

moneys in its accounting records. However, Company officials were unable to provide us with receipts related to the expenditure of all \$14,053 of the proceeds. We found only a few receipts in the monthly claim folders related to the Company's expenditure of these proceeds. Therefore, the Board, Company members, taxpayers and other interested parties do not have complete assurance that the foreign fire insurance proceeds were used in an appropriate manner.

Association

As mentioned in the Fund-Raising section of this report, Company officials are not accounting for all Company revenues and expenditures related to fund-raising in its accounting records, or recording these moneys in the Company's financial statements. Instead, these fund-raising moneys are accounted for in the Association's records. Therefore, the Company's Board does not review and approve the disbursement of these moneys prior to disbursement.

We reviewed the Association records⁸ and found that during our audit period the Association deposited \$15,819 from foreign fire insurance proceeds, \$12,310 in HVFFA reimbursements and \$5,420 in fund-raising revenues into its bank account. In general, the Association's disbursements appeared to be for valid Company purposes except for \$677 paid to an automotive repair shop for repairs performed on a vehicle that was not Company-owned. By depositing these revenues into the Association's account, the Company is not accounting for these moneys in a transparent manner. Also, these revenues and related expenditures are concealed from the annual audit conducted by the Town.⁹

The Town uses the Company's financial information to determine how much money the Company needs to operate annually, and correspondingly, how much to pay for the fire protection contract between itself and the Company. By depositing Company revenues into the Association's account, the Company is underreporting available revenues and resources, in effect hiding revenue from the Town, taxpayers and other interested parties. As a result, the Town and taxpayers may be paying more than necessary for fire protection services.

Recommendations

1. The Board should adopt financial policies to assist in safeguarding Company assets, such as policies for cash receipts and disbursements and fund-raising accountability.
2. The Board should establish procedures on the form and content of financial reporting from the Treasurer and ensure it receives sufficient monthly reporting.

⁸ Consisting primarily of a check book, bank statements and supporting invoices

⁹ The Town contracts for an annual financial audit of the Company.

2. The Board should establish procedures on the form and content of financial reporting from the Treasurer and ensure it receives sufficient monthly reporting.
3. The Board should ensure the Treasurer files the annual foreign fire insurance report in a timely manner and submits an annual financial report of the Company's financial activities to the Board at the annual meeting.
4. The Board should ensure sufficient documentation, such as receipts and invoices, is available to conduct a proper audit of claims. After auditing the claims, the Board should provide evidence that all claims were audited by either signing an abstract or a motion in the monthly Board meeting minutes that specifies the claims approved for payment, including claims numbers and dollar amounts.
5. The Board should examine bank statements and reconciliations and compare them to abstracts of approved claims to ensure that checks are prepared only when there is evidence of audit and adequate supporting documentation.
6. The Board should ensure the Treasurer files the annual foreign fire insurance report in a timely manner.
7. The Board should ensure that all Company revenues and expenditures are accounted for in the Company's accounting records and discontinue making transactions outside of the financial system, such as cash purchases and those made through the Association.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

West Glens Falls Fire Company #1 Inc.

March 25, 2014

Jeffrey P. Leonard
Chief Examiner
Office of State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801

Re: West Glens Falls Fire Company No. 1
Financial Operations

Dear Mr. Leonard:

In accordance with a letter from [REDACTED] dated February 28, 2014, please accept this letter in response to the Office of State Comptroller's request to respond to the Office's preliminary draft financial operations report of the West Glens Falls Fire Company No. 1.

Based on our review of the financial operations audit and recommendation of the Office of the State Comptroller, the West Glens Falls Fire Company No. 1 intends on undertaking the following actions:

1. Adoption and implementation of policies concerning cash receipts and disbursements, including, but not limited to the payment of claims and used of the foreign fire insurance proceeds.
2. Adoption and implementation of policies and procedures regarding the Treasurer's duties and responsibilities, including, but not limited to proper reporting, and the Board's oversight over same.
3. Adoption and implementation of specific policies and procedures relating to the fundraising activities of the Fire Company, including, but not limited to, the collection and disbursement of funds.

If you have any questions concerning this letter, please do not hesitate to contact me as we await the final audit. Thank you.

Sincerely,

Peter Smith
President of the West Glens Falls Fire Company No. 1

33 Luzerne Road • Queensbury, NY 12804

Station 1 - 792-8144

Station 2 - 793-1121

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 January 1, 2012, through September 13, 2012. We extended our scope period to January 1, 2011, for our review of the disbursement of the 2011 foreign fire insurance tax moneys.

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 receipts and disbursements and records and reports 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, 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 discussing this topic with select Board members.
- We determined if the Treasurer submits monthly financial reports to the Board. We verified, by reviewing Board minutes and discussing this topic with select Board members, the extent of any review of the reports. We reviewed monthly reports for adequacy.
- We determined if an outside firm or individual conducted an annual audit of the Company or if the Board itself performs an audit.
- We determined if the Board audited claims, how often the claims were audited and the evidence of this audit. We discussed with Board members the extent of their audit of claims.
- We analyzed the Company's financial condition by reviewing the Company's general ledger and audited financial statement for the last four completed fiscal years.
- We compared the annual financial audit to the accounting records and bank accounts (as needed).

- We accounted for all bank accounts 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. Where there were multiple bank accounts, we tested interbank account activity.
- We determined what revenues the Company receives (insurance recoveries, hall rentals, foreign fire insurance proceeds, and fund-raising activity moneys) and reviewed documentation and requested further information from Company officials, as needed.
- We examined receipts held in the Company's safe and interviewed Company officials regarding fund-raising moneys they used to purchase Company-related items that were not accounted for in the Company's accounting records.
- We reviewed all 114 claims paid during May, July and October 2012 and a judgmentally selected sample of 50 claims paid from January 1, 2013, through September 30, 2013, for completeness, supporting documentation, quality of documentation, unusual items or excessive purchases, and payments to Board members and related parties. We chose the months of May, July and October 2012 randomly within the year 2012. Our selection of the 50 check disbursements that that District made during the period January 1, 2013 through September 30, 2013 was a judgmental sample, which was based on unusual amounts, vendor names and types of purchases made.
- We determined whether financial transactions occurred between the Company and the Association, reviewed related agreements and requested further information from Company officials as needed. We also examined and traced all transfers of moneys between the Company and Association.

We conducted this performance audit in accordance with 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.

APPENDIX C

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Gabriel F. Deyo, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

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