OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT & SCHOOL ACCOUNTABILITY

Stockport Volunteer Fire Company No. 1

Selected Financial Activities

Report of Examination

Period Covered:

January 1, 2013 — February 10, 2015

2015M-189

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

**Division of Local Government
and School Accountability**

June 2017

Dear Fire Company Officials:

A top priority of the Office of the State Comptroller is to help fire company officials manage company resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support company operations. The Comptroller oversees the fiscal affairs of fire companies 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 fire company assets.

Following is a report of our audit of the Stockport Volunteer Fire Company No. 1, entitled Selected Financial Activities. 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 New York State General Municipal Law.

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

Respectfully submitted,

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

Introduction

Background

The Stockport Volunteer Fire Company No. 1 (Company) is a volunteer organization located in the Town of Stockport, Columbia County. The Company has a contract[1] with the Stockport Fire District to provide fire protection for the Town of Stockport. The Company received approximately $29,000 in revenue in 2013 and $50,000 in 2014, primarily from fundraising activities and foreign fire insurance premium tax.[2]

The Executive Committee (Committee) is responsible for the Company's overall general and financial affairs. The Committee consists of the President, Vice President, Secretary, Treasurer, Board of Trustees (Board), Chief and lieutenants. The President is the Company's chief executive officer and the Treasurer is the chief fiscal officer. The Committee is responsible for the Company's operations between meetings, provides a report of its proceedings at each regular and annual meeting and has the power to examine the books and accounts of any Company record.

The Board consists of three Company members[3] and is also the auditing committee. Prior to the Company's annual meeting, and at least once a year after, the audit committee is required to examine the Treasurer's accounts and report to the Committee. The Board is responsible for the Company's property except for the moneys, which the Treasurer maintains custody of. At the time of our audit, the Company owned a fire house, three trucks, one boat and some fire equipment. The Stockport Fire District owned two fire engines and the majority of the fire equipment used by the Company.

Objective

The objective of our audit was to assess the Committee's oversight of selected Company financial operations. Our audit addressed the following related question:

- Did the Committee provide adequate oversight of Company financial activities to ensure that resources are properly safeguarded?

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1 The District pays for most of the firematic equipment for the Company's use and some of the utilities. The Company does not receive any direct revenues from the District.

2 New York State Insurance Law generally imposes a 2 percent tax on premiums of fire insurance policies written by foreign and alien (i.e., out-of-state) insurers on property situated within various governmental entities in the State.

3 During our audit period, the Board consisted of two members.

Scope and Methodology

We examined the Company's internal controls over financial activities and compliance with its conflict of interest policy for the period January 1, 2013 through February 10, 2015.

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 A of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Comments of Company Officials and Corrective Action

The results of our audit and recommendations have been discussed with Company officials. Company officials were given the opportunity to provide a response to our audit findings and recommendations. However, they did not provide our office with a response letter.

The Committee has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, 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 Committee to make this plan available for public review in the Secretary's office.

Committee Oversight

The Committee is responsible for overseeing the Company's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Committee establish a system of internal controls that ensures transactions are authorized and properly recorded and that financial reports are accurate, reliable and filed in a timely manner. It is also essential that the Company adopts and complies with its bylaws, conflict of interest policy and procedures for the Company's disbursements and cash receipts. The Company must also comply with applicable laws, rules and regulations.

We found the Committee and Company officials have not provided adequate oversight of the Company's financial operations. The Treasurer[4] did not prepare monthly reports including a list of all moneys received and deposited and the list of bills presented or paid. The Board did not conduct a biannual audit of the Treasurer's books, as required by the Company's bylaws. We also found 27 bank withdrawals and transfers totaling $21,841 that were not approved.

Company officials also do not require detailed fundraising reports showing the revenues and expenses of each fundraising event. Officials do not issue press-numbered receipts for collecting revenues and do not require any supporting documentation for reimbursing fundraising expenses. Because of these control weaknesses, the Company either underreported or undercollected $1,985 in revenues for the 2013 and 2014 banquets. The lack of proper Committee oversight increases the risk of fraud, waste or abuse.

Financial Reports and Transactions

The Company's bylaws require the Treasurer to maintain complete and accurate records to properly account for all of the Company's financial activities. This includes keeping an accurate account of the sources from which all moneys are derived and providing copies of financial reports at the monthly meetings. The Committee must ensure that the Treasurer prepares and files all required reports in a timely manner. Company membership is required to review the finances and bills monthly and approve all purchases. The Company requires that reimbursements to members for Company expenditures be paid only after a signed claim form is approved by the Treasurer and President.

We found the Treasurer did not prepare and submit formal monthly and annual financial reports in 2013 and 2014, as required by the bylaws. Instead, the Treasurer verbally provided financial reports to

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[4] The Treasurer changed between 2013 and 2014.

the Committee. The Treasurer's report consisted of the bank accounts' balances and a list of the bills to be paid. The Committee did not require the Treasurer to prepare and submit formal written monthly and financial reports and did not require the Board to perform a biannual audit of the Treasurer's financial records, as required by the bylaws. Lastly, the Treasurer did not file the required form 990[5] with the Internal Revenue Service (IRS) in 2013 and 2014.

We examined the Company's books and records to determine if cash receipts were accounted for and if disbursements made were approved, as required by the bylaws. We tested all 30 withdrawals and transfers included on the Company bank statements for 2013 and 2014 totaling $29,579 for proper approvals and found that 27, or 90 percent, of the transactions totaling $21,841 were not approved.

Furthermore, of the 182 disbursements made in 2013 and 2014 totaling $51,607, we tested a judgmental sample of 13 disbursements totaling $12,639 for proper approvals and supporting documentation. Five disbursements totaling $4,432 were not approved and 12 disbursements totaling $11,591 lacked proper support for payment, including a detailed invoice or receipt attached to a signed voucher.

Lastly, we tested the approval of bills/claims listed in the monthly minutes for reimbursements paid to Company members. For the 11 reimbursements sampled totaling $2,555, seven reimbursements (almost 64 percent) totaling $1,930 were not approved. None of the 11 reimbursements to Company members had proper supporting documentation to allow for a proper audit of the bills or claims.

The Committee did not provide proper oversight of the Company's finances and did not adhere to the Company's bylaws. As a result, the Company's cash is at risk of misappropriation.

Fundraising Activities

Each Company fundraising activity has a chairperson who is responsible for all finances for the event. The chairperson should provide the Board with a written account of all tickets sold and all fundraising revenue collected and deposited. A timely reconciliation of receipts and disbursements should be done and any discrepancies should be investigated and resolved.

The Committee has not provided adequate oversight of fundraising activities and the associated recordkeeping and reporting procedures.

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5 Form 990 is an annual information return required to be filed with the IRS by most organizations exempt from income tax under Section 501(a) of the Internal Revenue Code. The Company is required to annually file a form 990-N as its gross receipts are normally less than $50,000. Failure to file the return can result in penalties or revocation of tax-exempt status.

Fundraising chairpersons typically presented only the net profit from fundraising events without detailed revenue and expense reports. When revenues were received, amounts were verbally reported at the monthly meetings by the chairperson responsible for the event along with a verbal report of the expenses associated with the event. The Board did not require press-numbered receipts or tickets to be used for fundraising events and did not require that receipts be reconciled to revenues received and deposited. In addition, there was no verification or supporting documentation, including receipts, invoices or claims, for any of the disbursements made for fundraising activities. Therefore, Company officials could not verify that the disbursements made were for proper Company purposes.

As a result of these weaknesses, we traced revenues reported as received to corresponding deposits and traced fundraising disbursements to the expenses reported for six fundraising events. The reported revenue for the six fundraising events totaled $15,883. We did not identify significant discrepancies.

In addition to the six fundraising events, we compared reported revenues for the 2013 banquet to the amount that should have been collected using the standard rates charged and number of attendees reported. While we calculated that $1,540 should have been collected, only $700 was reported as collected. Furthermore, available records showed that only $475 of the possible $1,540 collected was deposited. The remaining $1,065 is unaccounted for. Also, for the 2014 banquet, the Company underreported revenue by $105 using standard charges for attendance. In addition, none of the receipts totaling $920 could be traced to a deposit and, therefore, all of these funds remain unaccounted for.

Figure 1: Collections for Annual Banquet

Year	Amount to be Collected	Amount Reported As Collected	Amount Deposited	Unaccounted for Amount
2013	$1,540	$700	$475	$1,065
2014	$920	$815	$0	$920
Total	**$2,460**	**$1,515**	**$475**	**$1,985**

Finally, we found that the Company did not include in its 2013 banquet report that it purportedly donated a truck owned by the Stockport Fire District to the West Ghent Volunteer Fire Company in exchange for putting on the banquet for them.[6] Without supporting documentation or sufficient records to verify the amount that should have been collected for fundraisers, there is an increased risk that receipts that were collected were not remitted and deposited.

The discrepancies identified and unaccounted-for funds are due to the Committee not monitoring recordkeeping and enforcing the bylaws and not instituting proper internal control procedures over fundraising activities.

Conflict of Interest

The Company's bylaws include a conflict of interest policy (Policy). The Policy applies to an "interested person," defined as any director, principal officer or member of a committee with governing Board-delegated powers. The Policy requires an interested person, in connection with any actual or possible conflict of interest, to disclose the existence of the financial interest and be given the opportunity to disclose all material facts to the directors and members of committees with governing Board-delegated powers considering the proposed transaction or arrangement. For this purpose, an interested person has a "financial interest" when the person has, directly or indirectly, through business, investment or family, a compensation arrangement with the Company. The term compensation includes direct and indirect remuneration as well as gifts or favors that are not insubstantial.

The Policy also states that a financial interest is not necessarily a conflict of interest and that a person who has a financial interest may have a conflict of interest only if the appropriate governing Board or committee decides that a conflict of interest exists. The Policy states that after disclosure of the financial interest and all material facts, and after any discussion with the interested person, he or she shall leave the governing board or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining Board or committee members shall decide if a conflict of interest exists. The Policy also requires the minutes of meetings of the governing board and all committees with Board-delegated powers to contain the names of the persons who disclosed or otherwise were found to have a financial interest in connection with an actual or possible conflict of interest, the nature of the financial interest, any action taken to determine whether a conflict of interest was present and the governing Board's or committee's decision as to whether a conflict of interest in fact existed.

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[6] As a rule, fire districts lack authority to make gifts either to a fire company or to a third party (see 1991 Opinions of the State Comptroller, No. 91-19, p 62), and fire companies generally lack authority to make gifts of property owned by a fire district. Because the truck transferred to the West Ghent Volunteer Fire Company appears to have been owned by the Stockport Fire District, rather than the Company, the propriety of the transfer is outside the scope of this audit.

After the Policy's effective date, the Company entered into an agreement with an individual for septic work performed at the Company firehouse at a total cost of $3,200. At the time the agreement was entered into, this individual was a member of the Board. Based on our interpretation of the Policy and the other provisions of the Company's bylaws, it appears that this individual was an "interested person" because he was a "principal officer." It also appears that this individual had a financial interest because the septic work agreement was a compensation arrangement with the Company. Under these circumstances, we read the Policy as requiring this individual to disclose their financial interest to either the Board or a committee with Board-delegated powers. We found no record of any such disclosure or of any action taken by the appropriate body to determine whether the individual had a conflict of interest.[7]

Company bylaws also state that each trustee, principal officer and member of a committee with Board-delegated powers shall annually sign a statement which affirms such person: a) has received a copy of the conflicts of interest policy, b) has read and understands the policy, c) has agreed to comply with the policy and d) understands the Company is charitable and in order to maintain its federal tax exemption it must engage primarily in activities which accomplish one or more of its tax-exempt purposes. We found that none of the Company's trustees, principal officers and members of committees with Board-delegated powers had signed such a statement.

Company officials stated that there was a lack of understanding of the Policy. That lack of understanding may inevitably result in failures to comply with the Policy. The failure to comply with the Policy increases the risk that transactions between the Company and its key members might not be fair, reasonable and in the Company's best interest.

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[7] We also note that the individual in question was required to disclose his interest in the septic agreement pursuant to section 209-ee of General Municipal Law. With certain exceptions, section 209-ee requires any elected or appointed officer of a volunteer fire company responsible for governance who has, will have or later acquires an interest in any actual or proposed contract or other agreement with the fire company of which he or she is a member, to publically disclose the nature and extent of the interest in writing to his or her immediate supervisor and to the governing board of the fire company as soon as he or she has knowledge of the actual or prospective interest. The governing board must include the disclosure in the official record of its proceedings. Here, the individual in question had an "interest" in the septic work agreement because he received a direct pecuniary benefit as a result of the agreement and there is no record of his having disclosed the interest.

Recommendations

The Committee should:

1. Ensure that sufficient and appropriate supporting documentation for all receipts and disbursements is maintained and available for review at the monthly meetings.

2. Ensure that fundraising revenue is properly accounted for.

3. Require that the chairperson for each event use press-numbered receipts and account for all tickets sold, reconcile cash advances and deposits with records of ticket sales and proceeds received and properly report all revenues and expenses to the Committee.

4. Ensure that the Company does not enter into any contract in which a Company officer has a prohibited interest.

5. Ensure that Company officials comply with the conflict of interest policy.

6. Establish procedures to ensure that officers and members are informed of the conflict of interest provisions in the bylaws and adopt procedures to help detect and prevent prohibited interests in contracts with the Company.

Company membership should:

7. Ensure that all claims for reimbursements and disbursements are properly reviewed and the review of those disbursements is appropriately documented in the minutes.

The Treasurer should:

8. Prepare and submit written monthly and annual financial reports to the Committee, as required by the bylaws, which contain a detailed accounting of the Company's revenues and expenses and all cash balances.

The Board should:

9. Conduct a biannual audit of the Treasurer's records.

APPENDIX A

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if the Committee provided adequate oversight of the Company's financial activities to ensure that resources are properly safeguarded. To accomplish our objective, we interviewed appropriate Company officials and employees, tested selected records and transactions and examined pertinent documents for the period January 1, 2013 through February 10, 2015. Our procedures included the following:

- We obtained an understanding of the Company's internal control environment and specific controls that are significant to the Company's operations.

- To obtain information regarding the Committee's oversight and the Treasurer's reporting activities, we reviewed the minutes of the Board's proceedings from January 1, 2013 to February 10, 2015.

- We compared the foreign fire insurance reported figures to the amounts included in the Company's accounting records to determine the accuracy of these figures.

- We interviewed Company officials to gain an understanding of the claims audit and approval process and reviewed Board meeting minutes and any related policies.

- We compiled a list of all withdrawals and disbursements from Company bank accounts. Using the monthly Board minutes, we determined whether or not transactions were approved. We then traced the amounts transferred to other Company accounts to test for completeness.

- We judgmentally selected six fundraising events and banquets from our audit period. We selected these records due to weaknesses observed in the recording process and large disbursements being made to members in support of these events. We tested revenue records to determine if they contained proper recording and sufficient supporting documentation, were for proper Company purposes and complied with Board-adopted policies. We also examined the related canceled checks to ensure consistency with the reported expenses.

- We judgmentally selected 20 disbursements paid during our audit period because they posed a higher risk of being conflict of interest transactions. The disbursements included payments made to Company officials and payments for potentially questionable purchases. We tested these disbursements to determine if they contained proper and sufficient supporting documentation, were for proper Company purposes, complied with Board-adopted policies and were approved by the Board or membership prior to payment.

- We examined the procedures in place to identify and prevent potential conflicts of interest. We also examined Board minutes for associated public disclosures of interest. We requested representations from Board members and other Company officials that disclosed their outside employment and business interests, and those of their spouses, during the audit period.

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 B

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