

Selkirk Fire Company No. 2

Board Oversight

DECEMBER 2021



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

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Report Highlights

Selkirk Fire Company No. 2

Audit Objective

Determine whether the Selkirk Fire Company No. 2 (Company) Board of Directors (Board) provided adequate oversight of financial operations.

Key Findings

The Board did not provide adequate oversight of financial operations and cannot be assured all moneys raised were properly accounted for and deposited. The Board did not:

- Adopt adequate bylaws and supplemental financial policies and procedures.
- Ensure the Treasurer maintained adequate accounting records, deposited collections timely and intact and made mandatory filings accurately and in a timely manner.
- Review and approve disbursements before payment.
- Adequately monitor fundraising activities.
- Request or receive any periodic and annual financial reports.

Key Recommendations

- Adopt and enforce financial policies and procedures that ensure disbursements are approved before payment and supported by adequate documentation.
- Make timely deposits of all money collected, prepare and maintain adequate records and reports for all revenues and expenditures.

Board officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Company is a not-for-profit organization that provides fire protection within the affiliated Selkirk Fire District (District) in the Town of Bethlehem, Albany County.

The Company is composed of volunteer members and is governed by its bylaws and the member-elected four-member Board. The Board consisted of President, Vice President, Secretary and Treasurer. The Secretary position is currently vacant.

The Board is generally responsible for managing and overseeing the Company's financial activities. The Treasurer is responsible for maintaining custody of, disbursing, depositing and accounting for the Company's financial assets and filing financial reports.

The Company's primary sources of revenue are fundraising activities, foreign fire insurance tax money and donations.

Quick Facts

2019	
Deposits	\$59,439
Disbursements	\$72,659
2020 ^a	
Deposits	\$25,308
Disbursements	\$28,326
Active Members	25

a) Annual fundraising events did not occur in 2020 due to the COVID-19 pandemic.

Audit Period

January 1, 2019 – February 28, 2021

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. An important aspect of a board's responsibility is providing a process to routinely monitor and review the work performed by those who handle money as part of their duties.

The Board is required to provide an annual Directors' report to the members at the annual meeting. The annual Directors' report details the Company's assets and liabilities, as well as receipts and disbursements for the twelve-month fiscal period. The Treasurer should provide the Board and members monthly or interim financial reports that include the Company's current financial position and year-to-date revenues and expenditures. To fulfill its monitoring responsibility, the Board should compare actual results to annual budget estimates and communicate concerns and decisions to the Treasurer or other appropriate officers or members to make adjustments and corrections as needed.

The Board Did Not Adopt Adequate Financial Policies and Procedures or Provide Adequate Oversight

The bylaws lacked detailed financial procedures and the Board did not adopt supplemental financial policies or procedures. The bylaws contain limited financial responsibilities for the Treasurer and do not contain detailed policies or procedures for key financial areas including collections, disbursements and monthly reporting to the Board.

For example, the bylaws state that the Treasurer is responsible for all funds collected and is responsible for depositing funds in the Company's bank account. However, the bylaws do not describe the format and details for cash receipts and other financial records and do not specify the timeframe for depositing collections.

Further, the bylaws do not provide adequate guidance for disbursements. For example, the bylaws state that the Board may pay reasonable expenditures including travel, if in the Board's determination the expenditures were incurred while performing official duties on behalf of the Company. However, there are no detailed provisions for the use of a voucher system or a review process (e.g., by the Board or an appointed independent audit committee) that would result in an approved order to sign checks. There are also no guidelines for what types of disbursements would be appropriate expenditures.

An important aspect of a board's responsibility is providing a process to routinely monitor and review the work performed by those who handle money as part of their duties.

Because the Treasurer did not provide any financial reports to the Board during our audit period and the Board did not request financial information, the Board lacked the information necessary to present an annual Directors' report to the membership during the audit period. In addition, because the Board did not establish adequate financial policies and procedures, officers and members did not have proper guidance regarding their responsibilities, Company funds were not adequately safeguarded and the Board did not present the required annual Directors' report or any interim financial information to the membership. As a result, the Board did not adequately oversee the Treasurer or the Company's financial operations.

What Are Adequate Records and Reports?

Fire company 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. These records must be readily available to provide information as needed by officers, members, company officials and other agencies or interested parties.

It is essential to have an accounting system in place to properly record all financial transactions and generate accurate financial reports. Adequate accounting records should be maintained in a timely manner and consist of journals of all collections, disbursements and other transactions and account ledgers with detailed activity and running balances. They also include any other financial documents that provide a complete and accurate account of all collections, disbursements and cash balances.

A treasurer should keep an account of all money received from fundraisers, donations and other sources. Pre-numbered duplicate receipts should be issued for collections, and documentation should include the date collections were received, payer name, amount, purpose and form of payment (e.g., cash or check). To provide accountability, a treasurer should deposit money in a timely manner and intact (i.e., in the same amount and form it is received). Before making payments, the board and treasurer should ensure that planned disbursements are supported by adequate documentation, for appropriate purposes and approved by the board or designated officers who are independent of the disbursement process.

In addition, a treasurer should perform monthly bank reconciliations to ensure differences between cash balances recorded in the accounting records and the bank balances are identified and investigated in a timely manner. A board or membership should review bank reconciliations and bank statements monthly to ensure that the expenditures are legitimate and any differences between the bank and cash balances are documented and corrected.

It is essential to have an accounting system in place to properly record all financial transactions and generate accurate financial reports.

Further, the treasurer is required to file an annual report with the Office of the State Comptroller (OSC) for the company's receipt and use of foreign fire insurance proceeds, no later than the last day of February of each year for the preceding calendar year.

Adequate accounting records and supporting documentation help facilitate timely and accurate monthly report preparation. They also enable officers to monitor company finances, including revenues, expenditures and net profits for all fundraisers or activities and ensure adequate funds are available for company operations and to complete mandatory filings in a timely manner.

The Treasurer Did Not Maintain Adequate Accounting Records

Absent specific policies or procedures for financial record keeping and reporting, the Treasurer developed his own recording and reporting procedures that resulted in incomplete and inadequate records and reports.

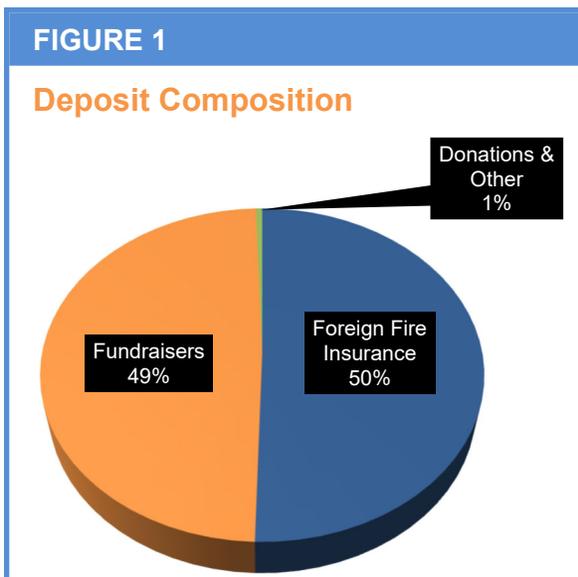
While the Treasurer maintained some documentation, he did not issue receipts for any collections and did not record individual collections when they were received. When the Treasurer received invoices, he verbally verified with the Company member who made the order that the goods or services were received. The Treasurer then issued the disbursement checks but did not record disbursements as they occurred. Instead, the Treasurer used the bank statements to record the prior month's deposits and disbursements in the accounting records.

Bank statements should not be used as a source document to record deposits and disbursements in the accounting records. Instead, bank statements should be used to reconcile bank account balances to the accounting records and identify differences. Because the Treasurer did not record transactions properly and used bank statements as the source to record the Company's deposits and disbursements, bank reconciliations, had they been performed, would not have served the necessary purpose.

We reviewed the Treasurer's accounting records and supporting documentation for all 26 deposits totaling \$84,796 and 60 disbursements totaling \$78,466, or 78 percent of the \$101,221 disbursements during the audit period, to determine whether accounting records were complete, timely and accurate. We found that the Treasurer did not maintain accurate or timely accounting records and made disbursements without the payments being reviewed or approved.

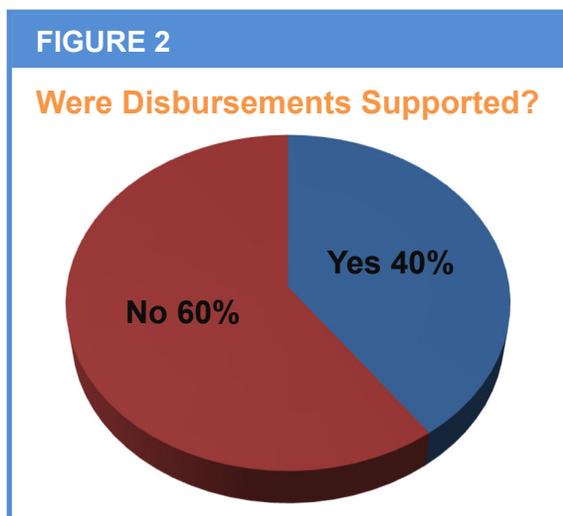
Deposits – The Company's deposits consisted of foreign fire insurance tax money, fundraisers and donations (Figure 1).

We found that none of the 26 deposits totaling \$84,796 during the audit period were adequately supported. Specifically, in addition to his process for recording transactions based on the bank statements, the Treasurer did not always document the payee and description of the collections and never documented the date and the form of payment (cash or check).



We also found that one deposit consisting of two donation checks totaling \$200 was not recorded in the accounting records and 5 deposits totaling \$23,762 were not made in a timely manner. Specifically, these deposits were made between seven days and six months after receipt. Further, the Treasurer lacked adequate support for us to determine whether 18 deposits totaling \$36,833 were made in a timely manner and whether 23 deposits totaling \$60,595 were made intact.

Disbursements – We reviewed 60 disbursements totaling \$78,466 to determine whether they were for appropriate purposes, supported, recorded properly and approved for payment. We found that none of the 60 disbursements were reviewed and approved for payment by the Board or designated officers. Further, they were not recorded properly because the Treasurer used the monthly bank statements to record the cleared disbursement checks in the accounting records. In addition, 36 disbursements, 60 percent, totaling \$36,254 were not adequately supported (Figure 2).



Documentation was insufficient, in part, because receipts or invoices were not itemized and/or did not identify the specific Company purpose. Some of the Company disbursements were for goods that could be considered personal or questionable without adequate supporting documentation. For example, disbursements were made for alcohol (social events and fundraisers), food (meetings, social events, fundraisers and drills) and furniture.

While these expenditures appeared reasonable, due to the lack of adequate documentation, we were unable to verify that all purchases were for appropriate Company purposes and leftover alcohol and food used for various Company events was adequately accounted for. Therefore, it is essential for the Board to require adequate support to document the Company purpose and approve all disbursements before payment.

Lack of documentation prevents a reviewer from ensuring that all amounts received were recorded and deposited, and all disbursements were for appropriate purposes and paid correctly. Because the Treasurer did not adequately account for all money received and disbursed, and disbursements were not reviewed and approved for payment, there is an increased risk that collections could be lost or misused, or disbursements could be made for inappropriate and unauthorized purposes and not detected in a timely manner.

Officers and Members Did Not Maintain Adequate Records for Fundraising Activities

During our audit period the Company held three fundraisers in 2019, including an annual fair, an annual flea market and a non-recurring spaghetti dinner. There were no fundraisers in 2020 due to the Covid-19 pandemic. Company officers did not maintain complete records necessary to identify how much money was collected for the various fundraising events or activities or ensure accountability over those handling cash.

Fair – A three-day fair with 17 booths for games, food, and drinks was held in July 2019. Volunteers assigned to each booth (booth volunteers) were responsible for collecting cash from customers and remitting the cash throughout the day to the three volunteers responsible for handling the cash (cash handlers). Each day these three cash handlers also provided the booth volunteers with starter cash¹ totaling \$6,215 withdrawn from the Company's bank account.

¹ Starter cash, ranging from \$20 to \$500, was provided to booth volunteers at the start of each day to make change for customers.

The booth volunteers documented starter cash and each of the remitted collections on a form turned in on the last day of the fair. The form included their initials for each transaction, as well as the initials of the cash handler receiving the remitted collections. Booth volunteers also prepared a daily cash count sheet listing the currency breakdown for the cash remitted at the end of each day, and this amount should agree with the daily amount recorded on the form. The cash count sheets have spaces to identify the booth name, date and signature of the booth volunteer and initials of one of the cash handlers.

At the end of each day, the cash handlers count the collected cash, initial the cash count sheet, deduct starter cash for the next day for all booths and place the remainder of the cash in a deposit bag for the Treasurer to deposit. After the fair, documentation is turned over to the Treasurer. The Treasurer recreates the forms by entering the information from each on a spreadsheet and he maintains the forms and the cash count sheets.

We reviewed collection documentation from all 17 booths and found booth volunteers and cash handlers either did not complete the forms properly or at all. Specifically, they did not always document starter cash, cash collected and remitted, dates or initials of both volunteers for all three days. In addition, we found that daily cash count sheets were missing for four booths and incomplete for 13 booths.

Based on the initial starter cash withdrawal, and available daily cash count sheets, original forms and forms recreated by the Treasurer, we calculated the Treasurer should have deposited \$24,740. However, the Treasurer deposited \$24,876, or \$136 more than our calculation, including two deposits made three and six months after the fair. Specifically, the Treasurer deposited \$100 in October 2019 and \$575 in January 2020. He could not provide a reasonable explanation for the late deposits. However, because of the incomplete forms and records, we lack assurance that all collected cash was recorded on the forms, cash count sheets and recreated forms and subsequently deposited.

In addition, a vendor provided fair rides and remitted 10 percent of all ticket sales to the Company. The Company did not have a contract with the vendor and did not monitor vendor ticket sales. The vendor issued a check for \$1,700 after the fair which was deposited in the Company's bank account. We obtained the deposit composition to verify this payment because the Company did not have any supporting documentation. As a result, the Board did not have assurance that the vendor accurately remitted the Company's share of ticket sales.

Flea Market – During the flea market held in July 2019, the Company generated revenues by renting booths to vendors and selling leftover food from the fair. Before the event, the Treasurer recorded booth rental payments on a spreadsheet, documenting the vendor name, amount paid, and number of booths rented, but did not record the date or form of payment (cash, check or money order). In addition, the Treasurer did not record payments made by walk-in vendors, renting booths on the day of the event, and he did not maintain any documentation for food sales.

Due to the lack of records and supporting documentation, we obtained all deposit compositions from the bank and traced the information to the Treasurer's spreadsheet. We found eight booth rental payments totaling \$305 were not recorded, two booth rental payments were understated by \$50 and four booth rental payments totaling \$160 were recorded on the Treasurer's spreadsheet but we could not determine if they were deposited.

Based on the August 2019 meeting minutes listing the total kitchen sales and number of booths rented, we calculated the expected minimum revenue of \$5,230 and compared it to deposited amounts totaling \$5,603. The Treasurer deposited \$373 more than the calculated minimum revenue.

Without complete collection records and supporting documentation, there is an increased risk that collections could be lost or misused and not detected in a timely manner.

Spaghetti Dinner – The Company held a spaghetti dinner fundraiser in January 2019 to raise money for an injured fire fighter. There were no Company expenditures for the fundraiser because community members donated food and other supplies. Collections and donations totaling \$9,395 were deposited in a separate bank account. However, because the Company did not maintain documentation to support the collections and donations, we could not verify whether the total amount collected was deposited. In September 2019, the Treasurer closed the account after withdrawing cash totaling \$9,398 (includes interest earned) to get a certified check for the fire fighter. However, because the Treasurer did not maintain a copy or other supporting documentation, we could not verify the details of the certified check.

Without detailed records for each event, the Board did not have sufficient information to oversee fundraising operations and determine the net profits.

The Treasurer Did Not Make Mandatory Filings in a Timely Manner

The Treasurer filed the annual report of receipts and use of foreign fire insurance proceeds (report) for 2019 and 2020 on April 13, 2021, which was more than a year late for 2019 and almost two months late for 2020. The Treasurer told us he was not aware of the filing requirements and filed the reports after we requested them. In addition, the reports for 2019 and 2020 were not accurate, as shown in Figure 3.

Figure 3: Foreign Fire Insurance Proceeds

2019	Report	OSC	
		Recalculated	Variance
Beginning Balance	\$35,749	\$35,749	\$0
Revenues	0	18,240	(18,240)
Expenses	19,354	19,354	0
Ending Balance	\$16,395	\$34,635	\$(18,240)

2020	Report	OSC	
		Recalculated	Variance
Beginning Balance	\$16,395	\$34,635	\$(18,240)
Revenues	44,529	24,549	19,980
Expenses	17,569	17,569	0
Ending Balance	\$43,355	\$41,615	\$1,740

In 2019, the Treasurer understated the revenues and ending balance by \$18,240 because he did not include the foreign fire insurance revenue received in 2019. The Treasurer included the omitted revenues from 2019 in the 2020 annual report. However, he also incorrectly included fundraiser revenues totaling \$1,740 in the 2020 report. While the reports, once filed, included sufficient detail for how the funds were spent, the Board did not ensure that the reports were filed timely and accurately. Therefore, the Board lacked assurance that foreign fire insurance proceeds were used for appropriate purposes.

Without comprehensive financial records and reports related to all Company 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 Company officers have appropriately handled all Company 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 collections, disbursements, records, and monthly and annual reporting.
2. Require the Treasurer to provide monthly or interim financial reports to the Board and membership.
3. Provide the required annual Directors' report to the members at the annual meeting that details the Company's assets and liabilities, as well as receipts and disbursements.
4. Ensure the Treasurer issues receipts for all money collected and maintains adequate records completely and in a timely manner, with detailed support for collections, and that disbursements are approved before payment and supported by adequate documentation.
5. Ensure that the Treasurer files the required foreign fire insurance annual report with OSC accurately and in a timely manner.

The Treasurer should:

6. Issue receipts for all money collected and maintain adequate records completely and in a timely manner, including detailed supporting documentation for all fundraising activities.
7. Make timely deposits of all money collected and provide the Board or membership with monthly bank reconciliations as well as bank statements and check images for review.
8. Prepare and file the required foreign fire insurance annual report with OSC accurately and in a timely manner.

Appendix A: Response From Company Officials

Selkirk Fire Company #2
301 Glenmont Road
Glenmont, NY 12077

11/24/2021

Mr. Gary G Gifford
Chief Examiner
One Broad Street Plaza
Glensfalls, NY 12801-4396

Dear Mr. Gifford:

We are in receipt of the draft audit report #2021M-122 regarding the Selkirk Fire Company #2 Financial Condition. We appreciate the review conducted by your auditors to ensure the proper financial management of our Company. We are pleased to find that the audit did not reveal any fraud, theft or misuse of our Company's funds.

While we do acknowledge that there are many deficiencies outlined in this report it is important to note that none of the deficiencies were malicious in nature.

It is also important to note that the volunteer position of "Treasurer" changes almost every year, along with the other Officer positions. With these changes, upkeep of Company financial records may change from year to year and no training is provided to new "Treasurers" when they assume their new leadership position. When the Covid Pandemic hit Company 2 went from having four officers down to one due to personnel resignations.

We are currently thoroughly reviewing your audit report and provide a corrective action plan as soon as possible.

Sincerely,

President Daniel J Sleurs

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 Company officers and members and reviewed bylaws and Board minutes to gain an understanding of Company operations.
- We obtained all bank statements for the audit period and identified 26 deposits totaling \$84,796 and 182 disbursements totaling \$101,221.
- We reviewed deposit compositions for 19 deposits totaling \$75,401. We compared the deposited amounts to the accounting records and supporting documentation to determine whether collections were adequately supported, properly recorded and deposited timely and intact.
- We reviewed a sample of 60 disbursements totaling \$78,466. We selected all 41 disbursements from the three bank accounts used for foreign fire insurance proceeds, bell jar and games of chance and judgmentally selected 19 disbursements to the highest paid vendors from the bank account used for all other disbursements. We compared the selected disbursements to the accounting records and available supporting documentation, such as invoices and receipts, to determine whether the disbursements were adequately supported, properly recorded, approved prior to payment and appropriate Company expenditures.
- We reviewed supporting documentation from each of the Company's fundraising activities during the audit period to calculate the minimum expected revenues and compared to amounts deposited to determine whether collected cash was recorded and deposited.
- We reviewed the annual reports of the foreign fire insurance proceeds for 2019 and 2020 to determine whether they were accurate and filed in a timely manner.

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.

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.

The Board has the responsibility to initiate corrective action. We encourage the Board to prepare a written corrective action plan (CAP) that addresses the recommendations in this report and forward it 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/files/local-government/pdf/regional-directory.pdf

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

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

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

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/files/local-government/publications/pdf/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

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

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