

# West Colesville Volunteer Fire Company, Inc.

## Board Oversight

JULY 2022



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

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# Report Highlights

## West Colesville Volunteer Fire Company, Inc.

### Audit Objective

Determine whether the West Colesville Volunteer Fire Company, Inc. (Company) Board of Directors (Board) provided adequate oversight of financial operations.

### Key Findings

The Board did not provide adequate oversight of financial operations. Specifically, it did not:

- Have sufficient controls or information to ensure all disbursements were appropriate and necessary. As a result, the Company made unnecessary disbursements totaling \$4,107.
- Ensure adequate records were maintained. As a result, we and the Board could not determine whether all collections were properly recorded or deposited.
- Prepare a budget or audit the Company's records, as required.
- Develop adequate written financial policies and procedures.

### Key Recommendations

- Revise the bylaws or develop necessary written financial policies and procedures.
- Use press-numbered duplicate receipts and itemized deposit slips.
- Discontinue paying for sales tax, certain diesel fuel purchases and credit card fees and charges.

Company officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

### Background

The Company is a not-for-profit organization that provides fire protection services within the Town of Colesville (Town) in Broome County.

The Company is composed of volunteer members (membership) and governed by its bylaws and seven-member Board. The Board includes the Company President, two Vice Presidents, Secretary, Treasurer and two members-at-large.

The Board is responsible for overseeing the Company's financial activities and approving all disbursements.

The Treasurer is responsible for receiving and disbursing money, accounting for financial activities and reporting account balances and transactions at each regular meeting.

While not a member of the Board, the Chief Engineer (Chief) is responsible for maintaining the Company's equipment.

#### Quick Facts

2021 Active Members	31
Collections Reviewed	\$267,773 (100 percent)
Disbursements and Withdrawals Reviewed	\$197,546 (100 percent)

### Audit Period

January 1, 2020 – November 30, 2021

# Board Oversight

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The Company's primary revenue source is a fire protection contract (contract) with the Town. Additional revenues come from foreign fire insurance, donations, fundraisers and hall rentals.

During our audit period, the Company had three different Presidents and two different Treasurers. The current President, who took office after our audit period ended, has a term from January 1, 2022 through December 31, 2022. The current Treasurer took office on January 1, 2021.

## **What Is Effective Board Oversight?**

Fire company boards (boards) should establish and enforce clearly defined bylaws and other policies and procedures to help ensure that company officials provide effective oversight of financial activities, provide accountability over funds collected and ensure that transactions are authorized and properly recorded.

Also, boards should establish a process to routinely monitor and review work performed by those who handle money. For example, a board should review bank reconciliations to ensure all transactions are recorded in the accounting system and that reported cash balances are accurate.

The Board should provide a tentative budget to the membership at the start of each fiscal year, as required by the Company's bylaws. The tentative budget should include anticipated revenues and expenses and should be reviewed and modified as necessary. In addition, the bylaws required the Board to audit the Treasurer's records annually.

## **The Board Did Not Develop Adequate Financial Policies or Procedures**

The Company's bylaws were inadequate, and the Board did not adopt supplemental financial policies or procedures. The bylaws outlined high-level responsibilities for different positions, such as the Treasurer's responsibility for accounting for all receipts and disbursements. However, they did not contain detailed policies or procedures for key financial areas, including cash receipts, purchasing, claims audit and approval, credit card usage, cash management, monthly reporting and annual audits.

For example, the bylaws required the Board to audit the Treasurer's records annually but did not specify how to conduct the audit. Also, the bylaws required the Treasurer to deposit all funds received in a bank designated by the Board, but did not specify recordkeeping requirements to ensure all funds received are deposited in full.

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Without adequate bylaws, policies and procedures, the Board and Treasurer did not have any guidance regarding their responsibilities. Also, the Company had an increased risk that its funds could be subject to loss, theft or misappropriation.

### **The Board Did Not Prepare a Budget**

The Board did not prepare a budget as required. Instead, the membership and Board decided which items to purchase throughout the year based on equipment needs or membership requests.

According to the former long-time President (former President), who is currently a Company member, the Board never prepared a budget during his tenure. Instead, the Board had an informal spending plan that allowed the Chief to spend approximately \$26,000 annually (Chief's budget) for maintenance and acquiring new equipment needed for fire protection. Remaining contract funds totaling approximately \$78,000 (annual contract total of \$103,641) were designated to be used for building and other membership-related expenses that were not included in the Chief's budget.

The current President told us that the Chief prepared a 2021 budget totaling \$26,000 that the Chief presented to the membership. However, due to the former President's resignation and the Board's focus on finding a new president, the Board did not adopt or monitor the submitted budget.

Because the Board did not use a budget, the Treasurer could not prepare budget-to-actual reports to compare projected revenues and expenses to actual ones. As a result, the Board and membership could not ensure revenues were sufficient to meet necessary expenses.

### **The Board Did Not Review Bank Reconciliations or Audit the Treasurer's Records**

Throughout each month, the Treasurer reviewed bank activity online and marked checks "cleared" in the accounting system once they cleared the bank. Once per month, usually after all checks were cleared, the Treasurer reconciled the accounting records to the bank account and produced a bank reconciliation, which the Board did not review. While Board members acknowledged the importance of reviewing bank reconciliations, they could not provide a reason as to why they did not review them.

The Treasurer was responsible for collecting and depositing cash and reconciling the Company's bank statements. When only one person performs these duties without another to check their work, the Company has an increased risk that errors and irregularities could occur and remain undetected. Because the Board

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did not review bank reconciliations and check the Treasurer's work, it cannot ensure that the Treasurer correctly recorded all financial transactions.

In addition, the Board did not conduct the annual audit of the Treasurer's records. The former President told us that an accounting firm reviewed the Company's records. We determined that the accounting firm prepared the Company's annual federal tax filings, but did not audit the Treasurer's records. When the Board does not audit the Treasurer's records, the Company has an increased risk that errors and irregularities can occur and remain undetected.

### **What Are Adequate Controls Over Collections and Disbursements?**

A board should establish controls to ensure that collections and disbursements are properly safeguarded, which includes segregating duties related to the collection and disbursement processes. A board should ensure the following:

- One individual should not collect, deposit and disburse cash; maintain the accounting records; and report financial activities to the board. If this is not possible, officials should implement mitigating controls, such as having someone who is separate from these processes periodically review bank statements and canceled check images.
- For fundraising events, at least two individuals should count and certify funds collected. When practical, a fire company should use press-numbered receipts or tickets to provide accountability and an audit trail for all funds received. After a fundraising event, a fire company treasurer should promptly deposit all funds received. The treasurer also should prepare and present a report to the company membership detailing the amounts collected and deposited, number of items sold and related expenses. Hall rental agreements should include an event date and indicate the rental amount and how payment was made (e.g., check or cash).

If a fire company allows its members to use credit cards, the board should adopt a written credit card policy. The board also should establish a system of internal controls to help ensure that members use the credit cards to purchase only approved and necessary goods and services.

At a minimum, these policies and procedures should address when members should use credit cards and for what types of purchases, who can use credit cards, whether members need preauthorization to use credit cards and identify dollar limits for credit card transactions. Also, credit card policies and procedures should describe the documentation that authorized credit card users must maintain for purchases.

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The Company's bylaws require the membership to approve all claims,<sup>1</sup> except apparatus fuel, and require the Board to approve all purchases that exceed \$500. The membership and Board should document their approvals before approving the Treasurer to pay related claims.

All claims should include adequate supporting documentation, such as receipts or vendor invoices. The board should ensure that officials review supporting documentation before approving claims, to ensure they are for valid and legal purposes, and before paying the claims, to ensure the payments are calculated correctly.

### **Controls Over Collections Should Be Improved**

Members who collected funds for fundraising events or hall rentals placed the funds on the Treasurer's desk or in a drop-box safe. The Treasurer would then record and deposit the funds. Each Board member and other Company members who we interviewed told us they thought this was sufficient.

Occasionally, members who collected funds would verbally report to the membership during a membership meeting. They reported on what event the funds were from, but did not maintain or provide detailed records for these collections. For example, when members submitted fundraising collections to the Treasurer, they did not provide any supporting records or reports that would allow the Treasurer to ensure all collections were remitted for deposit. Also, the Board did not require the Treasurer to use itemized deposit slips or issue press-numbered receipts for funds collected.

In addition, the Treasurer did not prepare profit and loss statements for fundraising events to determine the effectiveness of the events. Because the Board did not require the Treasurer to prepare profit and loss reports, we reviewed the accounting records to calculate the profit and loss from each event and found that the records indicated an overall net profit of approximately \$6,000 for five fundraising events during our audit period. Furthermore, hall rental agreements did not always include the amount collected or the date when the funds were collected.

The Treasurer made 50 deposits totaling \$267,773 during our audit period. Because the Board and membership did not maintain supporting documentation for collections, we could not determine whether all collections were properly accounted for and deposited in full. Without adequate supporting documentation, we and the Board could not determine whether all collections were deposited or properly recorded in the accounting system.

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<sup>1</sup> Claims represent bills or invoices submitted by vendors, or receipts submitted for reimbursement by members, requesting payment for goods and services purchased.

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When the Board does not require press-numbered duplicate receipts or other documentation to show the source and amount of funds collected, the Board and membership cannot determine whether all funds received are properly accounted for and deposited in full. Also, the Board cannot conduct an effective audit of the Treasurer's records.

### **Disbursements Included Unnecessary Expenses and Did Not Always Have Adequate Supporting Documentation**

The Board did not develop adequate internal controls over disbursements. In addition, the Board did not adopt a written credit card policy and procedures to ensure credit cards were used only for appropriate and necessary purposes.

During our audit period, several Board members and other Company officials, including the Chief and Assistant Chief, initiated purchases. We found that purchases were generally discussed and approved by the Board and Company membership at the membership meetings.

However, the Board and membership did not audit or approve claims before or after the expenses were incurred to ensure the claims contained approved purchases. The Treasurer provided a transaction activity report to the Board and membership at their monthly meetings that included all transactions for the past month. However, the Board was not presented with individual claims for audit and approval. Therefore, the Board did not have sufficient information to ensure all disbursements were for appropriate and necessary Company purposes.

We reviewed all 311 disbursements and withdrawals totaling \$197,546 made during our audit period to determine whether they were supported, approved and for necessary Company purposes. Except for minor discrepancies that we discussed with Company officials, we found that purchases were approved by the Board and membership.

However, we found that the Company made 82 disbursements totaling \$27,447 without adequate supporting documentation. Sixteen of these disbursements were automatic withdrawals totaling \$2,448 for fuel purchases and 10 totaling \$3,312 were for credit card transactions.

The Treasurer told us that the automatic payments for the fuel card were initially set up by the former President. Though monthly statements could be reviewed for fuel purchases on the fuel card's online account, the former President never provided the Treasurer with the account information to review the statements.

Although we found that the 311 transactions were for appropriate Company purposes, we identified the following unnecessary expenses:

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- Five duplicate payments totaling \$2,924. The vendors identified these duplicate payments and provided a credit to the Company's account. Because the Board did not audit individual claims, it was unaware that the Company had overpaid these vendors.
  - 37 transactions that included sales tax totaling \$521, which could have been avoided if Company officials used tax-exempt forms for these purchases. Several Board members told us they were aware that the Company had tax-exempt forms for them to use when making these purchases. However, they could not provide a reason for why they did not submit the forms to vendors.
  - Seven diesel fuel purchases totaling \$515. According to the contract, the Company received diesel fuel from the Town for free. The Assistant Chief told us that Company members were aware that the contract allowed the Company to receive 550 gallons of diesel fuel from the Town at no cost. But they preferred to use a diesel vendor located nearby during the winter months because road conditions to the Town's fuel depot might not allow for safe travel. However, the majority of the seven diesel fuel purchases occurred between March and October when driving conditions were acceptable.
  - Three credit card statements with fees totaling \$146 for late payment fees or over-the-limit and interest charges. The Treasurer told us that members who retrieved the Company's mail from the fire hall did not always provide the credit card statements to the Treasurer in a timely manner.

When the Board allows the Treasurer to pay disbursements without adequate supporting documentation, the Company has an increased risk that it could pay for non-Company purchases. Also, when the Board does not require officials and members to use tax-exempt forms for purchasing, obtain diesel fuel only from the Town, and does not require members to remit credit card statements to the Treasurer in a timely manner, the Company incurs unnecessary expenses, which limits financial resources for appropriate Company expenses.

## **What Do We Recommend?**

The Board should:

1. Amend the bylaws or adopt separate written financial policies and procedures over key financial areas, including budget preparation, collections, disbursements, purchasing, monthly reporting and auditing the Treasurer's records.
2. Prepare and present a budget to the membership on an annual basis and review and modify the budget as needed throughout the year.

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3. Review bank reconciliations to ensure all transactions have been recorded in the accounting system.
  4. Annually audit the Treasurer's records, prepare a written report of the audit results and present the report to the membership.
  5. Require the use of press-numbered receipts or tickets or implement other tracking to ensure all fundraising collections are remitted to the Treasurer to deposit.
  6. Ensure that hall rental agreements include the amount collected and the date when the funds were collected.
  7. Establish a written credit card policy that details authorized use, approval process and documentation requirements.
  8. Require Board and Company members to use tax-exempt forms when making Company purchases.
  9. Require Company members to obtain diesel fuel from the Town, and allow diesel fuel purchases from other vendors only under limited circumstances.
  10. Require Company members to submit credit card statements to the Treasurer on a timely basis.

The Board and membership should:

11. Audit all claims prior to payment and approve claims only when they have adequate supporting documentation and are for appropriate Company purposes.

The Board should ensure that the membership:

12. Uses press-numbered receipts or tickets when collecting money during fundraising events or tracks items sold using other methods.

The Board should ensure that the Treasurer:

13. Prepares budget-to-actual reports and presents them to the Board for its review.
14. Uses itemized deposit slips.
15. Prepares profit and loss statements for fundraising events and presents them to the membership for its review.
16. Does not pay sales tax on purchases and reimbursement requests.
17. Pays the Company's credit card bills in a timely manner to avoid late fees and interest charges.

## Appendix A: Response From Company Officials

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### **WEST COLESVILLE FIRE CO. INC.**

1305 Colesville Road • Binghamton, New York 13904

Phone: (607) 693-1001

To whom it may concern,

We would like to start by thanking the auditors' and their team for the time and effort spent reviewing the functioning of the Board of Directors of the West Colesville Fire Company.

We will be reviewing the recommendations that have been provided to us in the coming weeks. As a department, we will work toward the goal of drafting and implementing a course of action to address your concerns and recommendations. We will have a formal corrective action plan to you within the 90-day timeframe provided.

Sincerely,

The West Colesville Fire Company President.

## Appendix B: Audit Methodology and Standards

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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 current and former Board members and reviewed bylaws and Board and membership meeting minutes to gain an understanding of Company operations, including budget preparation, auditing of the Treasurer's records, collections and disbursements.
- We obtained bank statements with check images and verified information against supporting documentation.
- We reviewed all 50 collections totaling \$267,773 received during our audit period, supporting documentation of amounts collected, bank statements and deposit slips to determine whether all collections were properly accounted for and deposited in full.
- We reviewed all 311 disbursements and withdrawals totaling \$197,546 made during our audit period to determine whether disbursements contained adequate documentation to support the purchase, were approved by the members or Board (if applicable) and were for appropriate Company purposes.

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

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### **Regional Office Directory**

[www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf](http://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](http://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](http://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](http://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](http://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](http://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](http://www.osc.state.ny.us/local-government/required-reporting)

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

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[www.osc.state.ny.us/local-government/academy](http://www.osc.state.ny.us/local-government/academy)

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