

# Chateaugay Fire Company, Inc.

## Financial Activities

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**AUGUST 2018**

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

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# Report Highlights

## Chateaugay Fire Company, Inc.

### Audit Objective

Determine whether the Board of Directors (Board) provided adequate oversight of operations to ensure financial activity was properly recorded and reported and money was safeguarded.

### Key Findings

- The Treasurer did not maintain accurate accounting records. For example, The Treasurer did not record collections totaling \$10,517 that were deposited during the audit period.
- Company officials did not ensure that collections from donations and fundraising were adequately documented.
- The Treasurer paid claims totaling \$14,405 without sufficient supporting documentation to allow officials to determine whether the expenses were for valid purposes.
- The Treasurer did not comply with the bylaws for 35 claims totaling \$15,318 that required membership-authorization before payment.

### Key Recommendations

- Maintain accurate accounting records.
- Establish procedures to account for all collections received by the Company.
- Ensure compliance with the bylaws and pay bills after membership approval, as required.

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

### Background

The Chateaugay Fire Company, Inc. (Company) is a not-for-profit organization affiliated with the Chateaugay-Brainardsville Fire District (District) in Franklin County. The Company provides fire protection and EMS services to District residents.

The Company is governed by its adopted bylaws. The Board, composed of a member-elected President and five directors, is responsible for all business functions and upholding and enforcing the bylaws.

The Treasurer is the chief fiscal officer and responsible for receiving, disbursing and accounting for funds, preparing financial reports and meeting any other reporting requirements.

#### Quick Facts

2017 Revenues <sup>a</sup>	\$213,986
2017 Expenses	16,973
Active Members	28

<sup>a</sup> Included more than \$200,000 in donations from residents' estates.

### Audit Period

January 1, 2016 – December 31, 2017

# Financial Activities

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The Company's primary sources of revenue<sup>1</sup> are from donations, fundraising events and foreign fire insurance funds.<sup>2</sup>

## What Is Effective Board Oversight?

To effectively manage operations, good management practices require a board to establish policies, procedures and clearly defined bylaws to ensure that transactions are properly recorded, collections and disbursements are adequately accounted for and bills are approved before payment.

The bylaws require the Treasurer to provide a statement of each bank account balance at each Board meeting and present a year-end financial statement. The bylaws also require that a financial statement be prepared annually by an independent accounting firm.

The Board should require sufficient documentation be maintained for all money received, which includes the date of receipt, amount and composition (cash or check) and the date collections are deposited. Disbursements must be properly authorized and accounted for, supported by adequate documentation and for appropriate purposes. Except for the emergency vehicle repairs, the bylaws require that purchases or monetary payments in excess of \$100 require authorization by a majority vote of members present.

## Sufficient Guidance Was Not Provided Over Financial Operations

The bylaws provide limited guidance on the Board's oversight responsibilities and the Treasurer's duties. The Board did not provide any additional guidance or procedures for these duties. As a result, Company members lacked written policies and procedures for cash collections, disbursements and fundraising activities. In addition, the Board did not provide sufficient guidance to ensure that all money collected is deposited and disbursements are reviewed to determine whether each payment is adequately supported and for a valid purpose.

Because the Board's and Treasurer's financial responsibilities were not clearly specified, adequate oversight was not provided over financial activities. As a result, there is an increased risk that errors and irregularities with processing and accounting for money may occur and not be detected in a timely manner.

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1 In 2017, the Company received one-time gifts from estates totaling \$200,342.

2 Foreign fire insurance funds represent a tax on the premium paid on insurance policies. The law entitles fire companies or departments protecting an eligible area to receive an appropriate share of the tax collected on insurance policies written by foreign or alien insurers on policies within their area of protection.

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## **Accounting Records Were Not Properly Maintained**

The Treasurer did not maintain adequate records to account for collections and disbursements. For example, the Treasurer did not maintain adequate accounting records for bank and investment accounts. While the Treasurer maintained a checkbook register for the checking account, all deposits and a running balance were not included, which would have allowed for the preparation of a reconciliation comparing the bank balance to the register. In addition, the Treasurer did not maintain registers for the savings or investment accounts. Although the Treasurer viewed all bank statements online, he did not print copies and other Company officials did not review the statements.

During our audit period, deposits totaling \$26,443 were listed on the checking account statements. We compared the deposits listed to the manual accounting records maintained by the Treasurer and found that for four deposits totaling \$10,517 corresponding collections were not recorded in the accounting records. The accounting records also did not include seven disbursements totaling \$473. As a result, accurate and complete financial information and reports cannot be provided to the Board or other interested parties.

The incomplete accounting records resulted in the Treasurer reporting incorrect cash balances to the membership. The balances reported in the minutes were shown as of the date the Treasurer viewed the online bank statements and did not include reconciling items (e.g., deposits-in-transit or outstanding checks). Additionally, the Treasurer's reports did not include the investment account balances from August 2017 through November 2017.<sup>3</sup>

Without accurate accounting records, the Treasurer cannot provide accurate balances to the membership or accurate and complete year-end financial statements, as required by the bylaws. Further, the Treasurer used manual accounting records because he was never given password access to the computerized accounting records maintained by the former Treasurer. The current Treasurer also did not receive training before he assumed the Treasurer's position.<sup>4</sup>

## **Collections Were Not Adequately Supported**

Collections were not adequately supported to determine whether they were deposited. We identified weaknesses over collections from donations, fundraising and camp use.

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3 The investment account balance ranged from \$150,194 in August 2017 to \$150,845 in November 2017.

4 The current Treasurer assumed the responsibilities as Treasurer in October 2015.

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Donations – The manual list of donations received included the donor name and donation amount but did not include the date received or whether the donation was paid by check or cash. As a result, Company officials could not verify whether all donations received were properly deposited.

Barbecue and Car Wash Fundraiser – All money collected during this fundraiser was collected and counted by one member and given to the Treasurer for deposit. Company officials did not maintain documentation for the amounts collected for food sold (e.g., the number of hot dogs, hamburgers and drinks sold) or the car wash.

We reviewed the receipts for the food purchases and found that the corresponding receipts and invoices did not itemize the number of hot dogs and hamburgers intended to be sold. Therefore, officials were unable to determine the amount that should have been collected and deposited. In addition, because officials did not set the fee for the car wash, these collections were considered to be donations.

The Company collected \$699 during 2017 from these fundraisers, which was an increase from the prior year. We found no evidence to indicate that money collected was not deposited. However, the lack of a complete accounting of items purchased compared to items sold prevents officials from determining how successful fundraising events are.

Camp Fees – Collections for use of a Company owned camp, which was donated in the 1940s for use by members, is \$100 per week. Company officials used a sign-up sheet for members to reserve the week of their choice. However, these sheets were not maintained on file and discarded at year-end. We were able to trace press-numbered receipts to bank deposits for the six members that paid \$600 to use the camp during our audit period. However, the lack of sign-up sheets prevented officials from determining whether members who signed up and used the camp paid the required fee.

The Treasurer and Board were unaware of risks that could occur when adequate and complete collection records are not maintained. Further, because Company officials' financial responsibilities were not clearly specified in the bylaws, adequate oversight was not provided over cash collections and corresponding bank deposits. As a result, there is an increased risk that errors and irregularities with processing, recording and depositing collections may occur and not be detected in a timely manner.

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## **Disbursements Were Made Without Adequate Support and Authorization**

Company officials did not establish adequate controls over disbursements and the bylaws did not specify the types of expenses that are authorized to be paid using funds. Although Company officials approved the payment of bills at monthly meetings, the Treasurer did not provide adequate documentation for all disbursements approved.

The Treasurer made 167 disbursements totaling \$38,317 for the audit period. We found that 47 claims totaling \$14,405 were paid without sufficient support that would allow officials to determine whether they were for valid purposes. Of these unsupported claims, 17 totaling \$2,656 were paid from a statement without itemized support.

We discussed all these disbursements with the Treasurer and, except for five unsupported disbursements totaling \$351 that appeared to be for valid purposes, he provided us with sufficient supporting documentation for the remaining claims.<sup>5</sup> However, the membership did not authorize 35 of these claims totaling \$15,318 (each claim was in excess of \$100) before payment as required. The Treasurer included these payments in the list of claims paid in the minutes for membership approval after payment was made.

We also found that 43 disbursements totaling \$14,790 were either donations or payments for items to be used at the camp. For example, three payments for the camp totaling \$3,985 (\$2,750 for insurance, \$1,115 for repairs and mattress replacements and \$120 for firewood) and a \$400 payment for travel by ferry across Lake Champlain (a donation for medical treatment to a Board member and spouse who is also a member) were paid before membership approval as required.

Because the bylaws did not specify the types of expenses authorized to be paid with Company funds, the members did not have sufficient guidance for disbursements that were made for non-fire protection purposes. In addition, because Company officials did not have sufficient documentation for all disbursements, they cannot be sure that the payments were for appropriate purposes.

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<sup>5</sup> The five unsupported claims included two member reimbursements totaling \$137, \$29 paid to a local vendor frequently used to purchase perishable food items, \$175 for a used stove for the camp purchased through a newspaper advertisement and \$10 for camp electricity.

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We expanded our audit work to review purchases that lacked documentation and traced them to the actual items obtained by the Company and discussed other purchases with the Chief, who was not involved with the payment, to satisfy ourselves that all payments were appropriate. However, if all the payments were properly supported this additional work would not have been required and members would have had the ability to review the details of the payments before approval. Furthermore, by paying claims before membership authorization, there is an increased risk money may be spent for services or goods the members may not approve (e.g., donations of company funds).

### **The Board Did Not Review Financial Records and Reports**

The Board did not annually review the Treasurer's records or obtain an independent accountant to review his records and prepare a financial statement as required. Without Board review, the Board did not provide the additional oversight needed to lessen the effect of having the Treasurer perform all the financial duties.<sup>6</sup>

The Treasurer and President believed that the preparation and filing of Form 990<sup>7</sup> with the IRS by an outside accountant satisfied the bylaw's review requirement. However, without providing proper Board oversight and reviewing the Treasurer's records as required by the bylaws, there is an increased risk financial information could be inaccurately reported and that all collections and disbursements may not be properly accounted for.

### **What Do We Recommend?**

The Board should:

1. Review and update the bylaws to include procedures for the Board's oversight of financial transactions and the Treasurer's responsibilities to account for those transactions.
2. Review the Treasurer's books and records or provide for such a review, as required.

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<sup>6</sup> The Treasurer receives collections, makes bank deposits, reports cash balances to the Company, processes disbursements and signs and mails the checks.

<sup>7</sup> IRS Form 990 (Return of Organizations Exempt From Income Tax) is required to be filed annually and provides details on an organization's finances, activities and governance.



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The Treasurer should:

3. Maintain accurate, complete and up-to-date accounting records. Such records should include checkbook registers for each bank account listing all deposits and disbursements and a running cash balance.
4. Prepare monthly bank reconciliations for all bank accounts and present the reconciliations, bank statements and cancelled check images to Company officials for review.
5. Maintain adequate supporting records detailing the date, amount and composition (cash or check) for all collections.
6. Ensure that all disbursements are adequately supported to document the valid purpose for the expense and comply with bylaw requirements that all claims in excess of \$100 be member-authorized before payment.

# Appendix A: Response From Company Officials

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## CHATEAUGAY FIRE COMPANY, INC.

2 LAKE STREET P.O. BOX 911  
CHATEAUGAY, NEW YORK 12920

Incorporated 1958

Organized 1925

*MEMBER OF  
FIREMEN'S ASSOCIATION OF THE STATE OF NEW YORK  
NORTHERN NEW YORK VOLUNTEER FIREMEN'S ASSOCIATION*

The following is the response and corrective action plan of the auditor's recommendations for the Chateaugay Fire Company.

- 1) Since the audit, the company has made several updates to the By-Laws that have improved the way the Board oversees the company's financial transactions on a monthly and yearly basis. The Treasurer will prepare and present an annual financial report to the company at a year-end meeting and the records will be reviewed by an individual or firm, to be decided on by the company. The Treasurer has adopted a completely new system of recording and accounting for all expenditures.
- 2) The Treasurer now does a monthly reconciliation of all accounts, and signs the reconciliation as well as having it reviewed and signed by the secretary.
- 3) The Treasurer's new accounting system consists of the use of [REDACTED] for all transactions and a filing system to organize and maintain all records.
- 4) The company's reconciled banking balances, cancelled check images, expenditures, and deposits are all presented by the Treasurer at the monthly meetings and recorded in the meeting minutes. They are maintained in a secured file for future review.
- 5) All collections include a composition containing a check image or cash receipt, dollar amount, and whom from and why the income was received.
- 6) All expenditures include a receipt detailing what was purchased, the date, and amount of purchase. All transactions are recorded in [REDACTED] and the check stubs and receipts are maintained in a secure file. All purchases are made pursuant to the procurement rules set forth in the By-Laws.

Edwin Friskey (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 Company officials and reviewed the bylaws to gain an understanding of financial procedures and processes.
- We reviewed the Treasurer's records, bank statements and other supporting documentation to determine the accuracy and reliability of his records and reports provided to the Board.
- We reviewed documentation for all collections and a judgmental sample of composition of the largest bank deposits that included checks totaling \$6,632 to identify collections that were deposited during the audit period.
- We reviewed all disbursements for the audit period to determine whether these disbursements were authorized by the membership (if over \$100), supported and for a valid purpose.
- We performed inquiries of Company officials to determine if they complied with the bylaw requirement for the annual preparation of financial statements by an independent accounting firm.

We conducted this performance audit in accordance with GAGAS, generally accepted government auditing standards. 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 plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

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

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

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

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

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

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

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

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

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

[www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf](http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

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

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

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

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

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**GLENS FALLS REGIONAL OFFICE** – Jeffrey P. Leonard, Chief Examiner

One Broad Street Plaza • Glens Falls, New York 12801-4396

Tel (518) 793-0057 • Fax (518) 793-5797 • Email: [Muni-GlensFalls@osc.ny.gov](mailto:Muni-GlensFalls@osc.ny.gov)

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