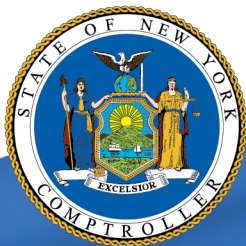


St. Paul Boulevard Fire Association

Board Oversight

OCTOBER 2018



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

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Report Highlights

St. Paul Boulevard Fire Association

Audit Objective

Determine whether the Board provided adequate oversight of the Association's financial operations.

Key Findings

The Board or membership did not:

- Ensure that the bylaws were adequate or adopt supplemental financial policies or procedures.
- Conduct or contract for an annual audit of the books and records of the Treasurer and Financial Secretary.
- Audit claims prior to payment and ensure there was sufficient supporting documentation for all claims.

Key Recommendations

The Board or membership should:

- Amend the bylaws or adopt separate written financial policies and procedures to establish internal controls over key financial areas.
- Conduct or contract, as required, for an annual audit of the Treasurer's and Financial Secretary's books and records.
- Ensure that all claims are audited prior to payment and have adequate supporting documentation.

Association officials agreed with our findings and recommendations and indicated that they have begun to initiate corrective action.

Background

The St. Paul Boulevard Fire Association (Association) is a not-for-profit organization, incorporated in 1924, and affiliated with the St. Paul Boulevard Fire District in the Town of Irondequoit in Monroe County. The Association provides fire protection and emergency rescue services to District residents.

The Association is governed by its bylaws and a 17-member Board of Directors (Board). The President is the Association's chief executive officer and the Treasurer is the chief fiscal officer. The Treasurer is responsible for maintaining custody of, disbursing and accounting for the Association's financial assets and providing the Board and membership with monthly and annual reports. The Financial Secretary is responsible for receiving funds. The Association's primary source of revenue is fund-drive donations.

Quick Facts

Members	110
2016 Deposits	\$132,780
2016 Disbursements	\$151,461

Audit Period

January 1, 2016 – October 3, 2017

Board Oversight

What is Effective Board Oversight?

It is essential that the board include in its bylaws, or board-adopted policies and procedures, internal controls and clear guidance to help ensure that all financial transactions are accurately accounted for and are for appropriate association business. In addition, New York State (NYS) Not-For-Profit Corporation Law (NFPCL) and NYS General Municipal Law (GML)¹ require the board to adopt a conflict of interest policy and a code of ethics that provide standards to help ensure all officers act in the association's best interests. It is also essential for the board to monitor for compliance with bylaws and policies to help ensure the prudent use and safeguarding of association resources.

Reconciling bank account cash balances with the accounting records monthly is an essential control activity that allows association officials to determine whether all cash receipt and disbursement transactions are captured and correctly recorded in a timely manner. The board or membership should review bank reconciliations, bank statements and cancelled checks monthly to ensure that receipts are deposited and disbursements are legitimate.

The Board Did Not Adopt Adequate Bylaws or Policies or Procedures

The bylaws are not adequate and the Board did not adopt supplemental financial policies or procedures. The bylaws provide limited procedural requirements in the descriptions of officer job duties, but do not contain any detailed comprehensive policies or procedures over key financial operations, such as accounting records, financial reports, cash receipts, purchasing and claims processing. Additionally, the Board did not ensure adherence to the minimal bylaw requirements. Furthermore, the bylaws include various unclear and contradictory provisions.² As a result, the Board did not implement adequate controls over financial operations.

For example, the President did not appoint standing committees in the form and for the purposes prescribed in the bylaws. In addition, the Board did not ensure that the various committees or Association officials performed the duties assigned to them in the bylaws.

In addition, although the bylaws require the Treasurer to provide the membership a monthly report of financial status, there are no specific guidelines for the information to be provided. As a result, the Treasurer did not provide adequate reports to the Board and membership. The Treasurer provides the Board with a monthly report that includes rounded³ bank and investment account balances and

¹ New York State (NYS) Not-For-Profit Corporation Law (NFPCL) Section 715-a and NYS General Municipal Law (GML) Section 209

² Several examples follow throughout the report

³ To the nearest \$100 dollars

a list of prior month disbursements. The Treasurer did not provide the Board or membership with a budget-to-actual report or revenue report.⁴ Without adequate financial reports, the Board and membership did not have sufficient information to adequately oversee Association finances.

The Treasurer Did Not Prepare Bank Reconciliations

The Treasurer told us that he reviews the bank statements and marks each transaction as “cleared” in the accounting software. However, he did not reconcile the cash balances in the accounting software to the bank statement balances. Additionally, the Board or other members did not review bank statements. The bylaws did not include specific guidance for financial operations, such as requiring bank reconciliations and review of bank statements and cancelled checks. Without performing this essential internal control procedure, the Board and membership did not ensure that all financial activity was properly recorded and disbursements were legitimate.

Cash Receipts Were Not Sufficiently Documented or Supported

Although the bylaws segregated duties by requiring the Financial Secretary to collect and record all revenues and turn them over to the Treasurer for deposit and recordkeeping, this procedure was not followed. The Financial Secretary did not collect any Association revenues. The Treasurer collected and deposited all revenue, with the exception of fund-drive donations. The annual fund-drive donations were collected and deposited by a different member who totaled the fund-drive cards⁵ and turned the cards, with a written total, over to the Financial Secretary who entered them into a software application that tracks the fund-drive donations. However, the Financial Secretary was unable to provide us with a usable report from the software because he did not record the receipts timely and did not enter the receipt dates. Additionally, the Financial Secretary did not total the donations from the cards or compare them to the bank deposits.

As a result, we found 96 deposits totaling approximately \$150,000 that were not adequately supported.⁶ Most of these were related to 2016 fund-drive donations for which supporting cards were not maintained in a manner which allowed for a comparison to bank deposit totals. For 2017, we reviewed a sample of 15 fund-drive deposits and found that for 12 deposits the deposit amount did not match the total amount of the corresponding fund-drive cards, by a net difference of \$1,949.⁷ Further, we identified 16 bank deposit corrections, totaling \$4,078,

4 The Association’s budget document has detailed expense estimates, but no revenue estimates.

5 Cards are included with the annual fund drive mailings to allow for donors to indicate the amount of the donation.

6 Refer to Appendix B Audit Methodology and Standards for details on our sample selection.

7 Two deposits were less than the available cards and 10 deposits were more than the available cards.

which ranged from a \$200 decrease to a \$1,734 increase in the deposit amount. The Financial Secretary told us that these differences were likely due to errors in adding the fund-drive donations. While deposits were generally more than the fund-drive card totals, without an effective cash receipts process in place, the Board cannot be assured that all cash receipts have been deposited and accounted for.

The Board Did Not Ensure That Financial Records Were Audited

The bylaws provide for a three-person audit committee to periodically examine the records of the Treasurer and Financial Secretary. The bylaws also specify, as duties of the Treasurer and Financial Secretary, that both officers must submit their records for audit before each annual meeting, or at the discretion of the Advisory Board. However, neither an audit committee, nor any other Association officers, annually audited the financial records. The Association contracts with a certified public accountant (CPA) to prepare the annual tax return, but the CPA did not audit the Association's financial records. Without an annual audit, there is an increased risk that Association resources could be used for inappropriate purposes without detection.

Did the Board Enforce the Conflict of Interest Policy?

The membership adopted a comprehensive conflict of interest policy (Policy).⁸ The Policy requires an interested person,⁹ in connection with any actual or possible conflict of interest, to disclose the existence of the financial interest¹⁰ to the Board and committee members considering the proposed transaction or arrangement. The Policy states that a financial interest is not necessarily a conflict of interest and provides that after disclosure of the financial interest and all material facts, the remaining Board or committee members shall decide if a conflict of interest exists. The Policy also requires the Board minutes 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

⁸ The Policy appears to be consistent with the requirements of Section 715-a of NFPCL which provides that not-for-profit corporations adopt, and oversee the implementation of and compliance with, a conflict of interest policy to ensure that its directors, officers and key employees act in the corporation's best interest and comply with applicable legal requirements. See also, GML section 209-ee which addresses, in part, a requirement of fire companies to adopt a code of ethics. We did not evaluate the policy for compliance with those statutory requirements.

⁹ Defined as any director, principal officer, or member of a committee with board-delegated powers, who has a direct or indirect financial interest

¹⁰ A person has a "financial interest" when the person has a compensation arrangement with any entity or individual with which the Organization has a transaction or arrangement." The term "compensation" includes "direct and indirect remuneration as well as gifts or favors that are not insubstantial."

nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the Board's or committee's decision as to whether a conflict of interest in fact existed.

According to the Policy, an "interested person" may make a presentation concerning a transaction in which he or she has a financial interest, and then must leave the meeting for ensuing discussions and voting involving the proposed transaction. The Policy also provides for a disinterested person or committee to investigate alternatives for a more advantageous transaction or arrangement from an entity that would not give rise to a conflict of interest.

Furthermore, the Policy states that each Board member or officer "shall annually sign a statement which affirms such person: a) has received a copy of the Policy, b) has read and understands the Policy, c) has agreed to comply with the Policy and d) understands the Organization 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." In addition, the Policy provides that periodic reviews shall be conducted to ensure the Association operates in a manner consistent with charitable purposes and does not engage in activities that could jeopardize its tax-exempt status.

The Board Did Not Enforce the Conflict of Interest Policy

We found that the Association did not follow and the Board did not enforce the Policy. The Association entered into transactions to purchase new insurance policies, whereby an insurance agency received 15 percent of the gross premium. At the time of those transactions, one Board member, who also served on the Association's two-member insurance committee, was employed by the insurance agency. The Board member informed us that he was paid 50 percent of the insurance agency's 15 percent fee in the first year and 40 percent of that fee in each renewal year. Therefore, he received commissions totaling \$596 for 2016 and \$483 for 2017. Under these circumstances, he appears to qualify as an "interested person" under the policy. However, we found no documentation in the minutes of the Board member's disclosure of the financial interest, the Board's process and determination of whether his financial interest constituted a conflict of interest, or the Board's action to address his interest in the contract, as required by the Policy.

The Board member told us that after recommending to the membership that the Association change to the new insurance policy through a new insurance agency (his employer), he did not leave the meeting and a vote immediately took place. Further, Board members told us that alternative proposals were not sought by a disinterested party for a more advantageous transaction that did not give rise to a conflict of interest. The insurance committee compared the proposed new plan to

the Association's previous plan. As a result, the Association did not comply with its policy and may have paid more for its insurance than necessary.

We found that the Board members did not annually sign a conflict of interest statement or perform periodic reviews, as set forth in the Policy. Some Board members told us that they were unaware of these provisions, while another knew of the provisions, but told us that those provisions were not enforced. Failures to comply with the Policy increase the risk that transactions involving the Association and its key members are not in the Association's best interest.

What Is an Effective Claims Audit Process?

An effective claims auditing process ensures that every claim against the association is subject to an independent, thorough and deliberate review to determine if proposed payments are clearly itemized and supported, represent actual and necessary association expenses and are in accordance with association bylaws or policies. Further, it is important that claims are audited and approved before payment and that authorization to pay claims is documented. An effective claims audit prevents the payment of unauthorized, improper or fraudulent claims.

The bylaws require the Treasurer to pay bills as audited by the Finance Committee and at the request of the membership. The bylaws also require the chairman of each committee to submit a detailed event report within 60 days of each event.

Debit cards pose significant risks because users have direct access to association bank accounts, without prior audit and approval, and unauthorized use may not be readily detected.

The Audit Committee Did Not Perform an Adequate Claims Audit

Despite the bylaws provision that the Treasurer pay claims as audited by the finance committee,¹¹ the Association's two-member audit committee¹² reviewed the monthly claims. However, they did not audit the claims before they were paid. We also found that the meeting minutes were misleading because they indicated that the membership approved claims prior to payment, when in fact, the Treasurer inappropriately paid the claims prior to audit and approval. Further, the audit committee did not ensure that all disbursements were supported with an itemized invoice or receipt or a voucher stating the purchase's specific purpose.

¹¹ In a different section, the bylaws provide for a finance committee of at least six members to develop the annual budget, with no mention of claims audit duties.

¹² As noted previously, the bylaws provide for the audit committee to consist of three members responsible for performing and reporting on an annual audit of the records of the Treasurer and Financial Secretary.

The Treasurer had a debit card, which he also allowed committee chairmen to use, without recording when he gave out the card, to whom, and for what purpose. These payments were directly withdrawn from the bank account at the time of purchase, which significantly increased the risk of inappropriate payments. On September 7, 2017, the Treasurer informed us that he cancelled the debit card.

Due to these deficiencies, we reviewed all 429 disbursements,¹³ totaling \$219,390, from January 1, 2016 through July 31, 2017. We found that 239 disbursements¹⁴ (56 percent), totaling \$82,459, did not have adequate supporting documentation. This included 131 disbursements (31 percent), totaling \$47,519, that did not have any supporting documentation, and others that had insufficiently itemized receipts or no explanation as to the related event or purpose of the purchase. While these disbursements were generally consistent with other Association expenses, most of the items could also be for personal use, which increases the need to maintain adequate support that clearly documents the business purpose and appropriate approval.

The Association had a check request form to document reimbursements and other payment requests, which required the requestor to attach the applicable receipts or invoices. However, the Board did not provide guidelines for, or require or enforce, use of the form. We found check request forms for 57 of the 429 disbursements tested (13 percent). Consistent use of this form would provide a systematic way to support all payments with an adequate explanation, documentation of purchase methods or reasons and any approvals, and attached supporting invoices or receipts, in one comprehensive packet.

The audit committee members told us that they review receipts and invoices for all payments, but also said that sometimes the receipts for a specific event come through the following month, along with the event report. However, event reports – or supporting documentation in many cases – were not available for our review. Furthermore, the committee should not recommend approval of these claims, if they have not yet seen the supporting documentation.

The only available description for unsupported disbursements was the budget/expense category in which the Treasurer recorded them. Examples of unsupported disbursements included:

- 44 debit card transactions (63 percent of debit card transactions) totaling \$7,155. Many unsupported debit card transactions related to the installation banquet and travel to conventions.

¹³ Disbursements include checks, debit card transactions and five withdrawals.

¹⁴ This includes 66 debit card transactions (94 percent of debit card transactions) and all five withdrawals.

-
- Three disbursements totaling \$18,458 to one vendor for the 2016 and 2017 installation banquets.
 - One disbursement of \$3,500 to a member event chairman to purchase supplies for the 2016 Association family picnic. The Chairman did not provide any receipts or invoices for supplies purchased. In addition, he did not submit the required event report.
 - One March 2017 disbursement of \$1,276 for t-shirts for the St. Patrick's Day parade.

We did not identify any purchases that were clearly inappropriate. However, given the significant disbursements without supporting documentation, the membership has no assurance that the Association's funds were used appropriately.

What Do We Recommend?

The Board or membership should:

1. Review and amend the bylaws and/or or adopt separate written financial policies and procedures to provide adequate internal controls and clear guidance over key areas of financial operations (including cash receipts, purchasing, claims processing, investments and recordkeeping and reporting requirements) and better segregate duties, eliminate unclear provisions and incorporate the procedures appropriate for and/or used by the Association.
2. Monitor and enforce compliance with the bylaws and any policies and procedures.
3. Require the Treasurer to prepare monthly bank reconciliations and review them along with monthly bank statements and cancelled checks.
4. Consider involving more individuals in the cash receipts process for the annual fund drive to ensure that amounts received are carefully counted, double-checked and compared to the amounts deposited.
5. Conduct or contract for an annual audit of the Treasurer's and Financial Secretary's books and records.
6. Audit or appoint a committee to audit all claims prior to payment and to recommend payment only after ensuring that all claims are supported by an itemized invoice or receipt and a voucher (or payment request form or similar document) clearly identifying the purpose of the purchase and any required approvals.

-
7. Ensure that all Association officers and committee members comply with the conflict of interest policy.

The Treasurer should:

8. Prepare monthly bank reconciliations for all Association accounts and provide them to the Board or membership with the bank statements and cancelled checks for review.
9. Provide the Board and membership with monthly reports on receipts and disbursements and budget-to-actual information.
10. Make payments only after a proper audit and approval of claims and retain all supporting documentation for all payments.

The Financial Secretary should:

11. Collect all revenues as required in the bylaws, or perform all duties required by amended bylaws once adopted.
12. Carefully count fund-drive donations noted on fund-drive cards and compare the total to the amounts deposited.

Appendix A: Response From Association Officials

ST. PAUL BOULEVARD FIRE ASSOCIATION, INC.

433 COOPER ROAD



ROCHESTER, N. Y. 14617

ESTABLISHED 1924

September 2018

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Local Gov't & School Accountability
The Powers Building
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Rochester, NY 14614

To Whom it May Concern,

On behalf of the entire St. Paul Boulevard Fire Association, I would like to thank you for your recent Board Oversight Audit performed on the time period from January 1, 2016 through October 3, 2017. We do accept and agree with the findings within your report and have already begun to implement many of the changes you have suggested. While the full implementation of your recommendations will be outlined further in our Corrective Action Plan, we felt it would be helpful to share with you the following changes that have already been put into action:

- Treasurer now provides a monthly budget-to-actual report at the monthly Advisory Board Meeting. A summary of this report is then read by the recording secretary at the monthly association meeting.
- Audit committee convenes to review checks prior to checks being signed by the second authorized signer to then be paid. Payments to vendors or members are not made until after a proper audit and approval of the claims.
- Conflict of Interest Policy was signed by all Advisory Board Members at the January meeting and is on file in the Treasurer's file cabinet. This will continue to be reviewed and signed off on annually by all advisory board members.
- As noted in the report the association debit card was canceled and destroyed. The association now has a credit card with a set spending limit. In addition, there is now a sign out/return log for the use of the credit card. The card is required to be returned at the conclusion of an event along with all receipts from the use of the card.
- Financial Secretary has improved the collection of fund drive donations by adding members to the committee ensuring that all monies are counted by multiple people to verify amounts and the subsequent reporting is done in a timely manner.

Along with the above changes we are in the process of updating our by-laws to implement the remaining recommendations within your report. These by-law changes will be further described in the forthcoming Corrective Action Plan.

Once again thank you for your work and due diligence in reviewing our Association and our current policies and procedures. We are confident that as we implement your suggestions we will be creating a much stronger board oversight foundation for the future of our Association and the leadership team that follows us in the years to come.

Best regards,

Walter Wilczewski
President

John Paul Penner
Treasurer

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 Association officials and members and reviewed Board minutes to gain an understanding of the Association's operations.
- We reviewed the Association's bylaws and conflict of interest policy for adequacy and to determine whether they were being enforced.
- We reviewed the Association's records and reports.
- We obtained representations from Board members that disclosed their outside employment and business interests, and those of their spouses, for the audit period. We reviewed those representations to identify potential conflicts of interest.
- We documented all 429 disbursements, totaling \$219,390, from the bank statements between January 1, 2016 and July 31, 2017 and compared them to the financial records and supporting documentation, such as invoices, receipts and vouchers to determine whether they had adequate support, were appropriate Association expenses and were audited prior to payment.
- We compared all 175 bank deposits, totaling \$231,617, from January 1, 2016 through July 31, 2017 to the income report. We reviewed all deposits not related to the annual fund drive and compared the supporting documentation (receipts, donor letters and copy of checks) to the actual deposits to determine if the receipts were deposited intact. We judgmentally selected all seven 2017 fund-drive deposits that contained deposit corrections and randomly selected eight additional 2017 fund-drive deposits and compared the fund-drive cards to the actual deposits. We were unable to test the 2016 fund-drive cards because the cards were not maintained in a way that allowed for them to be compared to specific deposits.

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

Regional Office Directory

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

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

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#lgmg

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

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

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

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

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

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