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July 11, 2014

Gardner W. Bills, President
Fire Company Membership
Hornby Fire Company, Inc.
4838 Hornby Road
Beaver Dams, NY 14812

Report Number: 2014M-78

Dear Mr. Bills and Fire Company Members:

The Office of the State Comptroller works to identify areas where fire company officials can improve their operations and provide guidance and services that will assist them in making those improvements. Our goals are to develop and promote short-term and long-term strategies to enable and encourage fire company officials to reduce costs, improve service delivery and account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Hornby Fire Company, Inc. (Company) which addressed the following question:

- Are Company controls adequate to ensure that financial activity is properly recorded and reported and that Company moneys are safeguarded?

We discussed the findings and recommendations with Company officials and considered their comments in preparing this report. The Company's response is attached to this report in Appendix A. Company officials generally agreed with our recommendations and indicated they plan to initiate corrective action.

Background and Methodology

The Company is located in the Town of Hornby (Town) in Steuben County. The Company contracts with the Town to provide fire protection services.¹ The Company also receives money from fundraising, firehouse hall rentals, donations and foreign fire insurance premiums.² The Company has approximately 30 active members.

We examined the internal controls over the Company's financial operations for the period January 1, 2012 through February 6, 2014. We interviewed Company officials and reviewed

¹ The Company received \$58,153 in 2013 for the fire protection contract.

² Foreign fire insurance money represents a tax on the premium paid on insurance policies as provided for in Insurance Law. Fire companies protecting an eligible area are entitled to receive an appropriate share of the tax collected on insurance policies written by foreign insurers on policies within their area of protection.

financial records and Board minutes. We conducted this performance audit in accordance with 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.

Audit Results

The Company's bylaws stipulate that decision-making powers lie with the membership's vote. The bylaws also establish the Company's officers, which consist of the President, Vice President, Treasurer, Secretary, Fire Chief, Assistant Fire Chief, four Captains and the Board of Directors³ and specify the responsibilities of these positions.

The President is responsible for signing all vouchers for bank withdrawals, ensuring that the bylaws are followed and appointing a three-member audit committee. The audit committee is responsible for annually examining the Treasurer accounts and verifying the bank balances, as well as presenting a report at the Company's annual meeting. The Treasurer is responsible for collecting all money remitted to the Secretary or otherwise due the Company, paying all bills when authorized and accounting for all Company receipts and disbursements. The Treasurer is further responsible for providing monthly and annual financial reports, when requested, and presenting the Company's financial records to the audit committee prior to the annual meeting. The Secretary is responsible for collecting dues, fines and fees and remitting those receipts to the Treasurer. The Board of Directors is responsible for preparing and filing all reports required by law, properly maintaining the fire building and grounds, and renting and scheduling fire hall use. The Executive Committee is responsible for conducting Company affairs between meetings and examining the books and accounts of any officer.

It is essential that the Company establish internal controls, which include policies and procedures over Company operations to ensure all transactions are authorized and properly recorded. Additionally, policies and procedures must include guidelines to ensure that financial reports are accurate, reliable, filed in a timely manner and that the Company complies with applicable laws, rules and regulations, including the General Municipal Law (GML) requirement to adopt a code of ethics.⁴ Further, monthly reconciliations of cash receipt and disbursement records with the bank statements should be prepared. Finally, the Secretary should issue receipts for all cash collected and ensure that these amounts are remitted to the Treasurer intact.

Generally the bylaws provided sufficient guidance to Company officials for operations even though they have not been updated since March 1984. However, our review disclosed the bylaws could be improved by adding specific language identifying who is required to review and approve the bills for payment, addressing credit and debit card use and describing what constitutes an emergency purchase that the President and Fire Chief are allowed to make without membership approval. Although the bylaws required the Treasurer to be bonded,⁵ the amount of

³ Currently, there are no Directors because of a lack of interest by the Company's members.

⁴ A code of ethics provides standards of conduct and procedures for disclosure of interests in accordance with GML Section 209-ee.

⁵ Bonding insurance helps protect the Company from losses resulting from dishonest acts or other unfaithful performance of duties by Board members, Company officers and employees. Anyone responsible for handling cash or credit cards should be bonded. The Company's bond coverage was \$15,000. However, as of December 18, 2013, there was approximately \$54,000 in the Company's bank accounts.

bond insurance coverage was significantly less than the Company's cash assets and did not include appropriate coverage for Company officers (i.e., the President and the Secretary). Further, the Company did not adopt a code of ethics as required by law.

Our review of compliance with the Company's bylaws found that the bylaws were not followed because of a lack of member interest to fill the positions on the Board of Directors and various committees. Specifically, we found the following weaknesses:

- The President did not sign vouchers or appoint members to an audit committee,
- The Company did not file an annual report of foreign fire insurance with OSC or Form 990 with the IRS⁶ because there was no Board of Directors and the Treasurer was unaware of these filing requirements,
- The Treasurer's accounts were not audited,
- The Treasurer did not prepare bank reconciliations and
- The Secretary did not issue receipts for cash collected or remit all cash received to the Treasurer intact.⁷

Because of these weaknesses, we reviewed all bank statement activity for the period January 1, 2012 through December 18, 2013. We found the Treasurer did not properly record and report all the Company's financial transactions because she lacked sufficient training. Since the Treasurer was unaware of how to prepare bank reconciliations, she was unable to identify why her book balance did not match the bank balance. Instead of investigating the difference, she made adjustments to bring the books in balance. We found the errors related to five deposits totaling \$3,523 and 61 disbursements totaling \$12,264 that were not recorded. The unrecorded deposits included insurance dividends, foreign fire insurance, donations and firehouse hall rental income. The unrecorded disbursements appeared to be for appropriate Company purposes and included payments for such items as supplies for the annual harvest dinner, awards for the banquet, dues, vehicle and lawn mower repairs, office supplies, firefighting gear, utilities and medical supplies.

We also reviewed 236 disbursements totaling \$104,498 listed on the bank statements during this same period. All of the disbursements reviewed appeared to be for appropriate Company purposes. However, we found 88 disbursements totaling \$28,456 (including 42 non-check transactions⁸ totaling \$4,316) that were not authorized. In addition, 28 disbursements totaling \$22,478 lacked supporting documentation. Further, 34 disbursements totaling \$12,742 (including seven non-check transactions totaling \$1,639) were authorized after payments were made. Finally, we identified nine unauthorized purchases for fire hall supplies totaling \$663 that the Secretary paid for with firehouse hall rental fees.

Without a proper claims approval process to ensure all claims are approved before payment and contain sufficient supporting documentation, Company officials have no assurance that the

⁶ Organizations exempt from income tax are required by IRS regulation to file this form.

⁷ For example, the Secretary collected \$375 in hall rental fees in May, June and July 2012. However she only remitted \$179 to the Treasurer in August 2012. She used the remaining \$196 to make fire company purchases.

⁸ Non-check transactions include debit cards and direct debit withdrawals.

purchases are for proper Company purposes or that the goods and services were actually received. Additionally, without proper Company oversight there is an increased risk that errors, irregularities or fraud could occur and not be detected and corrected in a timely manner.

Recommendations

1. The Company should establish internal controls over its operations, including the following:
 - Adopting a code of ethics as required by GML,
 - Implementing policies and procedures for cash receipts and disbursements, purchasing, claims processing and credit and debit card use to ensure that all disbursements are properly supported and authorized before payments are made and
 - Reviewing the Company's bonding insurance policy limits annually to ensure that all appropriate Company officers are adequately bonded.
2. The President should ensure the bylaws are being followed by approving vouchers for all disbursements and appointing an audit committee to annually audit the Treasurer's records or update the bylaws and assign these responsibilities to the Executive Committee.
3. The membership should follow Company bylaws and elect a Board of Directors.
4. The Board of Directors should prepare and file the annual report of foreign fire insurance funds activity with OSC and Form 990 with the IRS or update the bylaws and assign these responsibilities to the Treasurer.
5. The Treasurer should provide the Executive Committee with complete accurate financial records on a monthly basis and prepare monthly bank reconciliations.
6. The Secretary should issue receipts for all cash collected and remit cash receipts to the Treasurer intact.

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

We thank the officials of the Hornby Fire Company, Inc. for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

The Company officials' response to this audit can be found on the following page.

Hornby Vol. Fire Co.
4838 Hornby Rd
Beaver Dams NY 14812
(607)-962-2551

July 2, 2014

To whom it may concern,

We agree with the findings of the audit . we will be implementing the suggestions to fix the concerns of the Comptrollers office. we will be re-evaluating our by laws, and using purchase orders. we will be looking into otherways to make things run smoothly and efficantly within our company.

we appreciate the hard work the ladies did to help us make our fire comapny better.

Sincerely,

Gardner W. Bills
President.