



THOMAS P. DiNAPOLI
COMPTROLLER

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

GABRIEL F. DEYO
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

April 4, 2014

Lari Whiting, President
Members of the Board
Livonia Hook and Ladder Company No. 1, Inc.
4213 S Livonia Rd
Livonia, New York 14487

Report Number: 2014M-001

Dear Mr. Whiting and Members of the Board:

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 Livonia Hook and Ladder Company No. 1, 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 Livonia (Town) in Livingston County. The Company is affiliated with the Livonia Joint Fire District (District) and provides fire protection services to the Town. The Company has 45 active members. The Company's primary sources of revenue are fundraising and foreign fire insurance premium tax¹ moneys. The Company's revenues and expenditures for 2012 totaled \$30,865 and \$33,209, respectively. As of October 18, 2013, the Company's revenues and expenditures were \$29,700 and \$24,614, respectively.

¹ Insurance companies organized or incorporated outside of New York State that write fire insurance policies on properties located in the State must pay 2 percent of the premium to the State. New York State Insurance Law provides that the treasurer or fiscal officer of the fire department affording fire protection should receive these funds.

We examined the Company's internal controls over financial operations for the period January 1, 2012 through December 5, 2013. We interviewed appropriate Company officials and reviewed 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 is operated in accordance with its bylaws, which contain a one-paragraph code of ethics and stipulate that the Company's decision making power lies with the membership's vote. The bylaws also establish the Company's administrative officers (Board) and their responsibilities. The Board is elected by the membership and consists of a President, Vice President, Secretary, Treasurer and three trustees. The bylaws are silent in regard to the Board's and membership's financial oversight responsibilities and do not provide specific guidelines on how the membership exercises their decision making power. However, the bylaws do specify that the Treasurer is responsible for receiving all moneys, paying all bills, accounting for all receipts and disbursements and providing monthly and annual financial reports.

Because the bylaws do not address financial operations and the code of ethics is inadequate, we found that the Board and membership generally do not provide adequate oversight of Company financial activities. Specifically, we found the following internal control weaknesses:

- The Board has not adopted any written policies and procedures for financial operations. Furthermore, the Treasurer and President did not follow the limited guidance outlined in the bylaws regarding the receipt and deposit of money.
- The Board has not set standards of conduct for the guidance of the officers and members with respect to disclosure of interests in holding of investments in conflict with official duties, private employment in conflict with official duties, interests in contracts with the Company and such other standards as may be deemed advisable.
- The Company's financial duties are not adequately segregated and there are no sufficient compensating controls. The President opens the mail and deposits the receipts in the Company's checking account. He provides the deposit slip and any donation forms² to the Treasurer; however, he does not maintain a log for the individual receipts. The Treasurer records the deposits in the financial records, but the records do not include detailed information of the receipts. Additionally, the Treasurer is solely responsible for preparing vouchers and making disbursements and is the only individual authorized to sign checks. Company officials do not perform an independent review of the bank statements or the Treasurer's bank reconciliations.

² Some donations are received with a donation form; however, they are not required and are not received for all donations.

- The Treasurer provides a monthly report at the membership meeting detailing receipts, disbursements, cash balances and the list of bills to be approved that month. Although the written report is available, no one reviews it; instead, the Treasurer reads it aloud. The individual claims are not audited for accuracy or examined for supporting documentation. Rather, the membership votes to approve payment from the Treasurer's verbal reading of the bills at the monthly meeting.
- The President did not provide the legally required written disclosure of his ownership interest in a business³ used for the Company's website hosting.
- Although the bylaws state that the Treasurer is subject to an audit of the books at any time, an annual audit is not performed.
- The Treasurer has not filed the annual foreign fire insurance report for 2012, as required, and does not maintain separate records of expenditures from these moneys.

The Board's and membership's inadequate oversight of the Company's financial activity significantly increases the risk that disbursements may not be for appropriate purposes.

Due to these internal control deficiencies, we reviewed all 240 disbursements made during the period January 1, 2012 through October 31, 2013 totaling \$57,823 for authorization, adequate support, appropriateness and accuracy. We determined that 48 of the 240 disbursements totaling \$6,313 were not authorized by the membership prior to payment. Additionally, we found that 34 disbursements, totaling \$7,837, did not have proper supporting documentation but appeared to be consistent with the Company's other expenditures. We also compared 45 claims totaling \$8,250 and a sample⁴ of canceled check images with the Treasurer's records and found that the disbursements were accurately recorded. Finally, we determined that all of the Treasurer's recorded receipts totaling \$59,447 were deposited.

We discussed other minor deficiencies with Company officials during our fieldwork.

Recommendations

1. The Board should:

- Review and revise the Company's code of ethics and bylaws to include more guidance for the Board's and membership's financial oversight roles and responsibilities,
- Adopt written policies and procedures over cash receipts and disbursements that adequately segregate duties and provide oversight and

³ The President stated he was not President when the membership first voted to use his business to host the website and that it was known that he owned the business. The Company made 10 payments during our audit period to the President's business totaling \$637.

⁴ We randomly selected two months from 2012 and two months from our scope in 2013. We also received two additional months of check images.

- Ensure that all cash disbursements are properly supported, reviewed and approved prior to payment.
2. The Treasurer should maintain records pertaining to foreign fire insurance moneys and file the annual report.

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 and staff of the Livonia Hook and Ladder Company No. 1, 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.



Livonia Hook and Ladder Company No. 1

4213 S. Livonia Road • PO Box 151
Livonia, New York 14487

March 24, 2014

State of New York
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester New York 14614

Dear Mr. Grant:

The Members of the Board of Livonia Hook and Ladder Company No.1, Inc., have studied the draft of the Audit Report provided by your Staff. We are in agreement with the findings. We were truly shocked that we were trapped in the methods that have been handed down through the past century. It is obvious that we did not think that we were operating incorrectly. Nor did we have any idea that we might not be up to date with our accounting practices. It is obvious that we have spent more time with our firefighting skills than we have spent with our accounting practices. Since the audit began we have made many changes that were suggested to us. We are in the process of rewriting portions of our By-Laws that represent the corporate side of our fire company. We should have our complete revisions finished before it is time to file our Corrective Action Plan.

This audit procedure has been a humbling, yet exciting time for our organization. Upon receiving our first notification, the first emotion was fear. After we started working with the very professional and competent group of auditors, the fear was quickly replaced with enthusiasm. The kind and helpful nature of your auditors brought out the highest degree of cooperation that we volunteer firefighters are capable of exhibiting. The audit has been an educational and beneficial process for our fire company. We will profit for years because of this process and the helpful nature of the auditing crew.

Sincerely,

Louis J. Pinto, Treasurer
Livonia Hook & Ladder Company No.1