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December 23, 2011

Mr. Harry Nachtrieb, President
Members of the Executive Committee
Gasport Chemical Hose Company, Inc.
8412 State Street
Gasport, New York 14067

Report Number: 2011M-227

Dear Mr. Nachtrieb and Members of the Executive Committee:

One of the Office of the State Comptroller's primary objectives is 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 to account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Gasport Chemical Hose 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 agreed with our recommendations and indicated that they plan to take corrective action.

Background and Methodology

The Gasport Chemical Hose Company (Company) is located in the Town of Royalton (Town) in Niagara County. The Company primarily provides fire protection services for the towns of Royalton, Hartland, and Lockport. The Company had receipts totaling approximately \$167,000 from fire protection contracts and \$85,000 from foreign fire insurance premiums and fund-raising activities in 2010. Company disbursements in 2010 totaled approximately \$262,000.¹

¹ Includes the following more significant types of costs – debt service (\$53,000), fund raising (\$41,000), capital (\$33,000), fire and medical supplies (\$26,000), insurance (\$23,000), food, refreshments and installation (\$20,000), utilities and oil (\$17,000) and vehicle (\$7,000).

The Company is operated in accordance with its Constitution and By-laws. The Executive Committee, which is responsible for the Company's overall financial management, consists of a President, Vice-President, Recording Secretary, Membership Secretary, Treasurer, Assistant Treasurer, Chief, and three Directors. The President is the chief executive officer of the Company and is responsible for oversight of the non-operational affairs. The Treasurer is the chief fiscal officer.

We examined the internal controls over the Company's financial operations for the period January 1, 2010 to September 26, 2011. We interviewed appropriate Company officials and reviewed financial records and Committee 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 Committee is responsible for overseeing the Company's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Committee establish a system of internal controls, which consists of policies and procedures that ensure transactions are authorized and properly recorded; that financial reports are accurate, reliable, and filed in a timely manner; and that the Constitution, By-laws and other laws, rules and regulations applicable to the Company are complied with. The Constitution requires that the Treasurer account for all moneys received and paid, report at each regular meeting, and annually account for all amounts received and expended. The Committee, at its discretion, can examine the books and accounts of any officer, including the Treasurer. A periodic review of the Treasurer's reports will help the Committee to ensure that the Company's records are accurate and complete. As required by the Company's Constitution, an audit committee, which consists of three members, must audit the Treasurer's financial records at least twice each year. Furthermore, the Treasurer shall pay bills and make withdrawals only when authorized by the Committee at a meeting.

We found that the Treasurer maintained suitable records to account for financial activities. However, the Committee did not provide adequate oversight of Company financial activity. The Treasurer did not complete and file Form 990² with the Internal Revenue Service or the annual report of foreign fire insurance premium taxes with the Office of the State Comptroller as required.³ There also is no evidence that the Committee or audit committee examined or audited the Treasurer's financial records. Furthermore, the Company did not obtain an independent audit as required by statute.⁴ There is no evidence that the Committee approved bills prior to payment. These control weaknesses increase the risk that errors and irregularities could occur and not be detected or corrected in a timely manner.

² Return of Organization Exempt From Income Tax Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code.

³ General Municipal Law Section 30-a

⁴ General Municipal Law Section 207-z

Due to these deficiencies, we reviewed all eight bank accounts and one certificate of deposit during 2010 and 2011 and found that inter-account activity was appropriate. We also reviewed all 111 disbursements totaling \$63,321 from the Company's bank accounts for three months in 2011⁵ and found that, generally, payment activity was properly recorded and contained adequate documentation.

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

Recommendations

1. The Committee should ensure that the Treasurer properly completes and files IRS Form 990 and the foreign fire insurance premium tax report annually.
2. The Committee should periodically examine the Treasurer's financial records.
3. The audit committee should audit the Treasurer's records twice annually, as required by the Company's Constitution.
4. The Committee should ensure that an annual independent audit is conducted in accordance with statute.
5. The Committee should approve bills prior to payment and document such approval in the meeting minutes.

The Committee 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 Committee to make this plan available for public review.

Sincerely,

Steven J. Hancox
Deputy Comptroller
Division of Local Government
and School Accountability

⁵ Using a non-biased selection, we tested the months of May, June and July 2011.

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

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



GASPORT CHEMICAL HOSE CO.

Vol. Fire Dept.
8412 STATE ST., BOX 325, GASPORT, NEW YORK 14067

Gasport Chemical Hose Company, Inc.

Report Number: 2011M-227

Buffalo Regional Office

Robert Meller, Chief Examiner

295 Main St, Suite 1032

Buffalo, NY 14203-2510

For each recommendation included in the audit report, the following is our audit response(s) and corrective action(s) taken or proposed. For recommendations where corrective action has not been taken or proposed, we have included the following explanations.

Audit Recommendation:

The Committee should ensure that the Treasurer properly completes and files IRS Form 990 and the foreign fire insurance premium tax report annually.

Audit Response(s):

The IRS Form 990 has not been completed and filed. The foreign fire insurance premium tax reports were completed during the audit.

Implementation Plan of Action(s):

The Company has hired Zelazny & Roush C.P.A.'s P.C. to prepare the IRS Form 990 and any other necessary reports on an annual basis. They will investigate and prepare any past due reports as required.

The past due foreign fire insurance premium tax reports have been completed by the Company's President and Treasurer.

Implementation Date:

The IRs Form 990 will be completed by January 30, 2012.

The foreign fire insurance premium tax reports for 2011 will be completed by January 30, 2012.

Audit Recommendation:

The Committee should periodically examine the Treasurer's financial records.

Audit Response(s):

At the current time the Treasurer submits a monthly report of the financial activity at the monthly general meeting. The report is presented to the membership, reviewed and approved as evidenced in the minutes. A copy of the report is attached to the minutes of the meeting.

Implementation Plan of Action(s):

Going forward the Treasurer's report will be presented, reviewed and approved at the monthly Committee meeting and be evidenced in their minutes.

Implementation Date:

January 2012

Audit Recommendation:

The audit committee should audit the Treasurer's records twice annually, as required by the Company's Constitution.

Audit Response(s):

The audit committee does audit the Treasurer's records annually. The second audit was an oversight by the Company.

Implementation Plan of Action(s):

The audit committee will semi-annually (July and January) audit the Treasurer's financial records. They will sign and date such records to evidence the audit.

Implementation Date:

January 2012

Audit Recommendation:

The Committee should ensure that an annual independent audit is conducted in accordance with statute.

Audit Response(s):

The Committee was unaware that an independent audit was required by statute.

Implementation Plan of Action(s):

An independent auditor will be hired on an annual basis to review the records and perform an independent audit in accordance with statute.

Implementation Date:

Planned implementation date is February 28, 2011.

Audit Recommendation:

The Committee should approve bills prior to payment and document such approval in the meeting minutes.

Audit Response(s):

The Committee is in the process of reviewing the By-Laws to ensure proper and timely review and payment of bills. Since the Committee only meets once a month an alternative process is necessary.

Implementation Plan of Action(s):

The By-Laws will be changed to indicate the following:

- All operations bills (building and property maintenance, etc.) will be reviewed and approved by the Company President prior to payment.
- All firematic bills (EMS and fire equipment, etc.) will be reviewed and approved by the Company Fire Chief prior to payment.

Implementation Date:

The time-frame to make the necessary changes to the By-Laws is 3 months. By-law changes should be in effect by March 2012.

Persons Responsible for Implementation:

Harry W. Nachtrieb, President and Carlton Peckham, Treasurer

Signed:

Harry W. Nachtrieb

13 Dec 11

Harry W. Nachtrieb

Date

President

Carlton Peckham

12/13/2011

Carlton Peckham

Date

Treasurer