



Crystal Beach Volunteer Fire Department

Misappropriation of Funds

Report of Examination

Period Covered:

January 1, 2010 — April 30, 2014

2014M-243



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2014

Dear Fire Department Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of Crystal Beach Volunteer Fire Department, titled Misappropriation of Funds. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Crystal Beach Volunteer Fire Department (Department) is a not-for-profit organization located in the Town of Gorham (Town) in Ontario County. The Town contracts with the Department to provide fire protection services to its residents. The Department's primary sources of revenue are the fire protection contract, foreign fire insurance premiums and community fund-raising events, such as chicken barbeques and an annual fund drive. The Department has approximately 30 members (membership) and its 2014 budgeted appropriations were approximately \$202,000.

The Department is operated in accordance with its constitution and bylaws (bylaws) and is governed by a seven-member board (Board) comprising the following officers: the President, Vice President, Treasurer, Secretary, Fire Chief and two directors.

The Department was selected for audit based on the concerns of an out-of-state vendor from which the former Treasurer (Treasurer) attempted to buy merchandise. Subsequently, the Treasurer and his wife admitted to stealing funds from the Department. After the completion of our fieldwork, the Treasurer pleaded guilty to grand larceny in October 2014, and his wife pleaded guilty to petty larceny in September 2014.

Scope and Objective

The objective of our audit was to evaluate the Department's financial operations for the period January 1, 2010 through April 30, 2014. Our audit addressed the following related questions:

- Were Department funds used appropriately?
- Has the Board provided adequate oversight of the Treasurer's duties to safeguard Department assets?

Audit Results

The Board and membership were negligent in the performance of their oversight of the Department's financial operations. Financial activities were performed predominately by the Treasurer, and the Board did not implement adequate compensating controls, such as routinely reviewing and monitoring the Treasurer's work. This lack of oversight created a weak control environment that allowed the Treasurer and his wife to misappropriate more than \$95,000 of Department funds during our audit period.

The Treasurer and his wife made personal purchases totaling \$53,187 using the Department's credit card. Also, the Treasurer inappropriately wrote checks to himself totaling \$23,550 that were not for a Departmental purpose, retained moneys from fund-raising events totaling \$16,881 and transferred \$1,705 of Department moneys directly from the Department's bank account to his employer to pay for his personal health insurance. Had the Board taken the basic steps of requiring documentation to support disbursements and reviewing bank records, these misappropriations made over several years' time may have been prevented or detected in a timely manner.

The Board and membership failed to establish an adequate control environment, resulting in a poor "tone at the top." Specifically, the Board did not implement policies and procedures for cash management, credit cards, personal use of equipment, travel and reimbursement to members or a code of ethics. The Board also did not ensure the Treasurer maintained complete records of Department transactions, recorded all transactions in the check register and maintained supporting documentation for all Department expenditures.

Without established policies and procedures and adequate accounting records, it was even more important for the Board to provide oversight of the Treasurer's work. However, it did not adequately oversee Department purchases and audit claims or require the Treasurer to perform reconciliations of the bank statements with Department records. In addition, the Board did not require the Treasurer to submit detailed written monthly financial reports, as is required by the Department's bylaws.

Because the Board did not provide adequate oversight of the Treasurer's work, it was crucial for the Board to establish a last line of defense against fraud, abuse and waste by ensuring that the Department's accounting records were audited on an annual basis by a CPA. However, the Board failed to procure the necessary annual audit of the Treasurer's records, as is required by the Department bylaws.

This lack of oversight and independent review was complicated by the fact that the 2013 Board, which contained seven Board members, included four who were close relatives of the Treasurer.¹ As a result, one of the Treasurer's relatives contributed to the Treasurer's ability to misappropriate Department funds. The President, the Treasurer's brother, signed blank checks and gave them to the Treasurer, which subverted the Department's control for requiring dual signatures on all checks.

Comments of Department Officials

The results of our audit and recommendations have been discussed with Fire Department officials and their comments, which appear in Appendix A, have been considered in preparing this report. Department officials generally agreed with our findings and recommendations and indicated they plan to initiate corrective action.

¹ The Board members included the Treasurer, President (Treasurer's brother), Fire Chief (Treasurer's brother), Vice President (Treasurer's sister-in-law) and Director (Treasurer's nephew).

Introduction

Background

The Crystal Beach Volunteer Fire Department (Department) is a not-for-profit organization located in the Town of Gorham (Town) in Ontario County. The Town contracts with the Department to provide fire protection services to its residents. The Department's primary sources of revenue are the fire protection contract, foreign fire insurance premiums and community fund-raising events, such as chicken barbeques and an annual fund drive. The Department has approximately 30 members (membership) and its 2014 budgeted appropriations were approximately \$202,000.

The Department is operated in accordance with its constitution and bylaws (bylaws) and is governed by a seven-member board (Board) comprising the following officers: the President, Vice President, Treasurer, Secretary, Fire Chief and two directors. The President is the Department's chief executive officer. The Treasurer is the Department's chief fiscal officer and is responsible for receiving, maintaining custody of, disbursing, recording and accounting for Department moneys. The Treasurer also is required to report the status of Department finances by providing monthly financial reports to the Board and membership. The President, Vice President and Treasurer are authorized signers on the Department's checking account and the bylaws require that all checks written must be validated by any two of these three members.

During our audit period, two individuals served as the Department's Treasurer. The former Treasurer served from 2009 until the time of his suspension on October 25, 2013.² The Board appointed a new Treasurer from the Department's membership who took office on November 4, 2013. For the purposes of this report, "Treasurer" refers to the former Treasurer unless indicated otherwise.

Objectives

The objective of our audit was to evaluate the Department's financial operations for the period January 1, 2010 through April 30, 2014. Our audit addressed the following related questions:

- Were Department funds used appropriately?
- Has the Board provided adequate oversight of the Treasurer's duties to safeguard Department assets?

² Board members told us that the Treasurer was suspended only for the time being, pending the completion of OSC's audit.

**Scope and
Methodology**

We examined the Department's internal controls over its financial operations for the period January 1, 2010 through April 30, 2014. We extended our scope period back to January 1, 2009 for credit card transactions and checks made payable to the Treasurer.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Department officials and their comments, which appear in Appendix A, have been considered in preparing this report. Department officials generally agreed with our findings and recommendations and indicated they plan to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of the Town Law, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. 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. The Board should make the CAP available for public review with the Department's Secretary.

Misappropriation of Funds

The Department's bylaws require the Treasurer to keep records of all Department funds, moneys and financial accounts and present a report of the treasury to the Board at the first regular meeting each month. The Treasurer is to receive all Department moneys and pay all orders voted to be paid by the membership and, along with an appointed officer, sign all financial transactions drawn on the treasury. All money earned from fire protection contracts must be used for appropriate Department purposes. The Board is responsible for overseeing the Department's fiscal activities and safeguarding its resources, which includes a monthly review of the Treasurer's report, bank statements and bank reconciliations to ensure that Department records agree with the bank statements. Additionally, the Department's bylaws include a provision that requires an annual independent audit by a certified public accountant (CPA) of the Treasurer's financial records, which can help identify errors and irregularities.

The Board and membership were negligent in the performance of their oversight of the Department's financial operations. Financial activities were performed predominately by the Treasurer, and the Board did not implement adequate compensating controls, such as routinely reviewing and monitoring the Treasurer's work. This lack of oversight created a weak control environment that allowed the Treasurer and his wife to misappropriate more than \$95,000 of Department funds during our audit period. The Treasurer and his wife made personal purchases totaling \$53,187 using the Department's credit card. Also, the Treasurer inappropriately wrote checks to himself totaling \$23,550 that were not for a Departmental purpose, retained moneys from fund-raising events totaling \$16,881 and transferred \$1,705 of Department moneys directly from the Department's bank account to his employer to pay for his personal health insurance. Had the Board taken the basic steps of requiring documentation to support disbursements and reviewing bank records, these misappropriations made over several years' time may have been prevented or detected in a timely manner.

On October 25, 2013, we met with the Treasurer to discuss the Office of the State Comptroller's (OSC) concerns related to disbursements from the Department's checking account and credit card charges made with the Department's card. At the meeting, the Treasurer gave us a written statement indicating that he used Department funds for his personal use, such as gas for his personal vehicle and purchases at various other stores. After this meeting, we referred the matter to the Ontario County Sheriff's Office (Sheriff's Office) and the

Ontario County District Attorney (DA). On November 14, 2013, the Treasurer was interviewed by the Sheriff’s Office and admitted to using Department funds for his personal use.

Figure 1: Theft of Department Funds	
Type of Theft	Amounts
Admitted Personal Use of Credit Card	\$28,175
Additional Personal Use of Credit Card	\$25,012
38 Checks Made Payable to and Cashed by the Treasurer	\$23,550
Theft of Proceeds from Fund-Raisers	\$16,881
Health Insurance Payment to Employer	\$1,705
Total Fraudulent Transactions	\$95,323

Credit Card Charges

One of the Treasurer’s responsibilities is to ensure Department moneys are expended only for proper Departmental purposes. This responsibility includes using the Department’s credit card only for appropriate purchases that have been approved by the Board and ensuring that the Department pays credit card bills only for Department-related purchases. The Board should review the Department’s credit card statements and documentation (receipts and invoices) that indicate the purchases were appropriate Department expenditures before approving the payment of the monthly credit card bill. The Department credit card should never be used for personal purchases.

Treasurer’s Admission – The Department had one major business credit card that was issued to the Treasurer. When we reviewed the Department’s January 2011 through September 2013 credit card statements³ with the Treasurer, he admitted to using the Department credit card inappropriately 485 times to make purchases totaling \$28,175.⁴ The Treasurer told us that he was the only person who was authorized to use the card and kept it in his wallet at all times, though sometimes he would give the Department card to his wife to purchase gasoline for their car.

The Treasurer’s admitted inappropriate personal use of the Department credit card included 293 transactions at gas stations totaling \$11,863,⁵ 41 transactions at retail stores totaling \$6,033, 56 transactions at

³ At the time of our meeting, these were the only credit card statements available to us.

⁴ Refer to Figure 2 for further information on these transactions.

⁵ With the exception of the Chief’s vehicle, all Department equipment operates on diesel fuel that is obtained from the Town of Gorham. The Department does not pay for gasoline for the Chief’s vehicle.

grocery stores totaling \$3,761 and 66 transactions at restaurants totaling \$2,752. The purchases at the retail stores included \$1,465 at sporting goods stores, \$1,453 at a children's clothing retailer, \$1,415 for cable television services,⁶ \$690 at a furniture rental store, \$680 at a local automotive dealer and \$577 for hotel lodging.

When we interviewed the Treasurer regarding various suspicious credit card charges, he initially told us he had mistakenly used the Department credit card for personal use because he had a personal credit card that was issued from the same bank that looked identical to the Department's card. However, later in the interview process, the Treasurer admitted his personal use of the Department credit card was intentional. In addition, we also learned later that the Department credit card was blue and had "Business Card" written on the front of the card, while the Treasurer's personal card was red and had a scenic picture.

Treasurer's Wife's Admission – The Treasurer's wife reviewed the same credit card statements that we presented to the Treasurer and provided us with a written statement in which she admitted to knowingly using or being present during the inappropriate use of the Department credit card 28 times for purchases totaling \$2,543 made from January 2011 through April 2013.⁷ The Treasurer's wife's admitted inappropriate personal use of the Department credit card included \$589 at a children's clothing store, \$565 at a jewelry store and \$330 at a local tanning parlor. The DA later told us that the Treasurer's wife pleaded guilty to the charges against her and agreed to pay restitution.

Additional Personal Use – After our initial meeting with the Treasurer, we requested and reviewed Department credit card statements from May 2009 through December 2010 and August through October 2013 and found an additional 566 transactions totaling \$25,012 that also appear to be for the Treasurer's personal benefit. We came to this conclusion based on a similar pattern of charges, information provided by independent third parties, our knowledge of Department operations and on our review of the already admitted fraudulent transactions.⁸

As shown in Figure 2, this additional inappropriate personal use of the Department credit card included 382 transactions at gas stations totaling \$14,434, 48 transactions at grocery stores totaling \$4,313 and 96 transactions at restaurants totaling \$2,852. Other purchases

⁶ The Department paid for its cable television services by check.

⁷ See supra, note 3.

⁸ We were unable to discuss these additional purchases with the Treasurer because once this matter was referred to law enforcement, we could not have further interactions with the Treasurer.

included \$430 at an online electronics store, \$419 at a national retailer’s website, \$302 at a sporting goods store and \$240 for public utility services.⁹

Figure 2: Summary of Credit Card Fraud

Type	Admitted Personal Use ^a		Additional Personal Use ^b		Totals	
	Number of Transactions	Amounts	Number of Transactions	Amounts	Number of Transactions	Amounts
Gas Stations	293	\$11,863	382	\$14,434	675	\$26,297
Restaurants	66	\$2,752	96	\$2,852	162	\$5,604
Retail Stores	41	\$6,033	15	\$2,524	56	\$8,557
Hotels	3	\$577	0	\$0	3	\$577
Groceries	56	\$3,761	48	\$4,313	104	\$8,074
Other	26	\$3,189	25	\$889	51	\$4,078
Total	485	\$28,175	566	\$25,012	1,051	\$53,187

^a These transactions occurred from January 2011 through July 2013.
^b These transactions occurred from May 2009 through December 2010 and August through October 2013.

Because Department officials did not provide any oversight of the Department’s credit card charges, officials did not suspect or detect the Treasurer’s inappropriate use of the Department’s credit card. The Board’s failure to adopt comprehensive written guidance on credit card usage, along with Department officials’ failure to review and approve the monthly credit card bills, left the Department’s funds subject to fraud, waste and abuse.

Check Disbursements

It is important that the Board and membership ensure that expenses paid represent actual and necessary Department charges and that the Treasurer maintains supporting documentation for all disbursements. Supporting documentation could include invoices or other records providing the date and purpose for each disbursement. According to the Department’s bylaws, all checks issued by the Department must be signed by any two of the following three officers: President, Vice President or Treasurer.

Although the Treasurer did not earn a salary for his position, he cashed 38 Department checks totaling \$23,550. The Treasurer told us he used these funds as petty cash to pay various Department bills and as start-up cash for fund-raising events. However, the Board never authorized the establishment of a petty cash fund.

When we asked the Treasurer for further information on the bills that the Department typically paid with cash, he could not provide us with

⁹ The Department paid for its public utility services by check.

a list of cash payments made or tell us how much cash was used as start-up cash for fund-raising events. The Treasurer also did not have any bills, receipts, invoices or other documentation to support the amount withdrawn. Checks payable to the Treasurer ranged in amounts from \$150 to \$1,700 and contained notations in the memo section with statements such as “cash for golf tournament” or “petty cash.”

On October 25, 2013, we performed a cash count to verify the amount of cash that the Department had on hand. The Treasurer told us there was no cash on hand and he signed a statement attesting to this, despite having cashed a Department check on October 7, 2013 for \$500 that contained the statement “cash for cash box” in the check’s memo section. The Treasurer did not have any bills, receipts, invoices or other documentation to support the amount withdrawn.

Although the Department had a mitigating control in place by requiring two authorized signatures on all checks, this control was ineffective because the second authorized signature on the Department’s checks was that of the President, the Treasurer’s brother, who told us that at times he signed blank checks for the Treasurer. By signing blank checks, the President completely defeated the controls intended by the dual signatures and caused the loss of thousands of dollars of Department funds. There was no evidence that the Treasurer submitted any of these payments to the Board and membership for their review and approval.

Because the President signed blank checks and the Board did not ensure that the Treasurer maintained supporting documentation for all Department claims or review expenditures before they were paid, the Treasurer was able to misappropriate \$23,550 of Department moneys.

Cash Receipts and Deposits

The Treasurer should receive all moneys collected by the membership or otherwise due to the Department and deposit all funds in Board-designated bank accounts. Good management practices require that all cash received be recorded in a cash receipts journal to provide a detailed record of the amounts, dates and source of the moneys received. This record of collections should agree with the corresponding deposits made into the Department’s bank accounts.

The Department holds annual fund-raising events, including chicken barbeques and a hunter’s breakfast. As reported by the Treasurer on his profit and loss statement, the Department’s revenues from these events totaled a combined \$26,418 from 2010 through 2013. The Treasurer was responsible for collecting and depositing fund-raising revenue without any oversight by the Board or membership.

We attempted to account for moneys raised from fund-raising events held during our audit period by tracing amounts from the Department's own records of revenues from the events to the associated bank statements. However, the Department's records were incomplete, because the Treasurer did not maintain any cash receipt records during our audit period. As a result, we were unable to account for \$16,881 from 12 fund-raising events¹⁰ that should have been deposited into the Department's checking account.

Because the Board did not ensure that the Treasurer maintained accurate records of cash collected and deposited or review the Treasurer's work, the Treasurer was able to misappropriate \$16,881 of cash collected at the Department's fund-raising events.

Bank Reconciliations

The reconciliation of bank account balances to general ledger cash balances is essential for maintaining effective control over cash transactions. Bank reconciliations that include a review of monthly bank statements enable Department officials to verify that cash transactions have been properly recorded and accounting records are accurate. The review of bank reconciliations and bank statements also provides Board members with an added measure of assurance that the Treasurer's financial records and reports contain reliable information on which to base management decisions.

The Board did not ensure that Treasurer prepared monthly bank reconciliations or request to review the Department's bank statements. During our review of the Department's bank statements, we identified two electronic withdrawals from the Department's checking account by the Treasurer's employer. The withdrawals were made in January 2013 for \$1,136 and March 2013 for \$569. The Treasurer admitted that the two payments were initiated by him and were for the payment of his health insurance premiums.

Because Department officials did not perform monthly bank reconciliations and review monthly bank statements, the Treasurer was able to initiate electronic withdrawals totaling \$1,705 directly from the Department's bank account without detection. The failure of the Board and membership, as stewards of public funds,¹¹ to safeguard Department resources by allowing the Treasurer to perform key financial duties without any oversight resulted in the ongoing theft of funds without detection.

¹⁰ We estimated these revenues by using the amounts reported by the Treasurer in his fund-raising profit and loss statements and compared them to the bank deposits. The \$16,881 was the amount that was unaccounted for.

¹¹ The Department's major source of funding comes from the Town of Gorham for the fire protection contract.

Subsequent to the completion of our fieldwork, the Treasurer pleaded guilty to grand larceny in October 2014, and his wife pleaded guilty to petty larceny in September 2014.

Recommendations

Department officials should seek legal advice regarding reimbursement from:

1. The Treasurer and his wife for the \$95,323 in misappropriated funds.
2. The President for the losses resulting from his signing of blank checks for the Treasurer.
3. Other Board members to the extent they approved payments without verifying whether they were for legitimate Department purposes.

Control Environment

The Board is responsible for managing and overseeing the Department's overall fiscal affairs and safeguarding its resources. This responsibility includes establishing a system of internal controls, including written policies and procedures, to provide reasonable assurance that cash and other resources are properly safeguarded; transactions are authorized and properly recorded; financial reports are accurate, reliable, and filed in a timely manner; and applicable laws, rules and regulations are followed.

A vital component of any internal control system is the control environment, or "the tone at the top." The control environment is a reflection of the Board's attitude about internal controls and includes the integrity, ethical values and competence of the organization's people and the Board's philosophy and operating style. When the control environment is strong, there is an expectation that everyone, including the Board, will conform to established controls and uphold the public's trust. The foundation of any effective control environment is competent officers who have integrity and attentively monitor operations to safeguard public resources.

Management needs to be alert to close personal and family relationships that might present opportunities to circumvent internal controls or exploit inadequate controls. This is especially true when monitoring the work performed by a family member or close personal friend. In such a situation, even if collusion is not present, exercising an appropriate level of skepticism when considering the risk of fraud may be difficult. Therefore, it is imperative that management monitor performance regularly and where possible bring in someone independent to assist.

The Board and membership failed to establish an adequate control environment, resulting in a poor "tone at the top." Financial activities were performed predominately by the Treasurer, and the Board did not implement adequate compensating controls. This lack of oversight was part of a lax control environment that allowed the Treasurer to misappropriate approximately \$95,000 of Department funds during our audit period. Specifically, the Board did not do the following:

- Implement policies and procedures for cash management, credit cards, personal use of equipment, and travel and reimbursement to members.
- Oversee all Department purchases and approve vouchers for payment.

- Ensure the Treasurer maintained complete records of all Department transactions, recorded all transactions in the check register and maintained supporting documentation for all Department expenditures.
- Require the Treasurer to provide detailed written monthly financial reports, as is required by the Department bylaws.
- Require the Treasurer to perform reconciliations of the bank statements with Department records.
- Ensure the Department's accounting records were audited on an annual basis by a CPA, as is required by the Department bylaws.
- Develop a code of ethics policy.

In addition, the President signed blank checks and gave them to the Treasurer, subverting the Department's control for requiring dual signatures on all checks. This egregious circumvention of the controls over cash disbursements enabled the Treasurer to use \$23,550 of Department funds for personal purposes. The lack of oversight and independent review was compounded by the fact that the 2013 Board, which contained seven Board members, included four who were close relatives of the Treasurer.¹² Board members were shocked when told that the Treasurer was stealing from the Department and stated they had no reason to suspect the Treasurer because he was family.

This poor control environment allowed the Treasurer to defraud the Department of approximately \$95,000.¹³

Recommendations

The Board should:

4. Develop, adopt and implement written policies and procedures for cash management, credit cards and ethics.
5. Approve all cash transactions and ensure they are for appropriate Department purposes.
6. Routinely monitor and review the Treasurer's work, by reviewing the Department's bank statements and reconciliations, claims, canceled checks, deposit slips and financial records and reports.

¹² The Board members included the Treasurer, President (Treasurer's brother), Fire Chief (Treasurer's brother), Vice President (Treasurer's sister-in-law) and Director (Treasurer's nephew).

¹³ Refer to the Misappropriation of Funds section for further information.

7. Contract annually with a CPA to audit the Treasurer's records.
8. Require the Treasurer to submit detailed deposit and disbursement reports on a monthly basis.

APPENDIX A

RESPONSE FROM DEPARTMENT OFFICIALS

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

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George F. Harris
(1922-2007)

John T. Harris

November 13, 2014


Division of Local Government and School Accountability
Office of the State Comptroller
Suite 522
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Rochester, New York 14614

VIA FACSIMILE AND US MAIL
(585) 454-3545

Re: Crystal Beach Volunteer Fire Department

Dear 

I am writing this response as the attorney for the Crystal Beach Fire Department. The response in brief to the Comptroller's Response is as follows:

1. The Department has instituted a practice of now matching all receipts and/or bills at each monthly meeting to checks and/or payments for those same bills or receipts.
2. The Treasurer is reporting to the Department/Board each month the income/expense, bills and a review of the Treasurer's monthly report/abstract of bills/receipts is reviewed and approved by the Department/ Board at each monthly meeting.
3. No checks are signed until the check is first matched to a bill/receipt, reviewed by the Department/Board and then signed by the appropriate members of the Department/Board.

4. The Department/Board will be revising the By-Laws of the Department as soon as possible, given the schedule of the Department and myself.
5. The Department has been unable to conduct a review/audit of the prior years in question as the Ontario County District's Attorney has had the records of the Department since approximately February/March of this year and we just received the records from Ontario County District Attorney's Office on Thursday, November 6, 2014. The Department is in the process of putting a request for proposal to have an accounting firm audit the past records and future years of the Department's financial records.
6. The Department has been in contact with the Ontario County District Attorney's Office to enter an order of restitution against the former Treasurer to save the funds which would have been expended in attempting to collect the missing funds in Civil Court.
7. The investigation as to any other means of recovery is ongoing and will be influenced by the audit of the prior records of the Department.

The Crystal Beach Fire Department was the victim of a crime carried out by an individual, through ultra vires activity, without the knowledge or acquiescence of the Board/Department. The extent of the crime will only come to light through an independent audit as set forth above.

If the Comptroller's Office has further direction for the Department, the Department would welcome such direction.

Respectfully Yours,

John F. Harris

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The Department was selected for audit based on the concerns of an out-of-state vendor from which the Treasurer attempted to buy merchandise. We examined the Department's internal controls over its financial operations for the period January 1, 2009 through April 30, 2014. The evidence we used during this audit included documentation gathered by subpoena. We also conducted the following procedures:

- We reviewed Board minutes from 2012 through 2013 and interviewed Department officials to gather information about the Department's policies and procedures related to claims processing, cash receipts and disbursements and Department operations.
- We interviewed the Treasurer and his wife to determine if they used Department assets for their personal benefit.
- We obtained written statements from the Treasurer and his wife stating that both had used the Department's funds for personal benefit.
- We conducted an audit of all cash receipts and cash disbursements from 2010 through 2013. To accomplish this we obtained bank statements, deposit compositions and canceled checks directly from the bank to determine the cash receipts and disbursements that cleared the bank.
- We obtained and reviewed credit card statements directly from the credit card company from May 2009 through October 2013 and reviewed any supporting documentation.
- We reviewed all supporting documentation provided by the Department for cash receipts and cash disbursements. These materials included vendor invoices and financial statements prepared by the Treasurer, such as monthly treasurer reports, chicken barbeque summaries and hunters' breakfast summaries.
- We obtained additional detailed supporting documentation directly from third-party vendors to determine whether certain transactions were personal in nature.
- We reviewed the Department's constitution and bylaws.
- We performed two cash counts of the funds held by the Treasurer.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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.

APPENDIX C

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