



Bradford Volunteer Fire Company, Inc.

Apparent Misappropriation of Funds

Report of Examination

Period Covered:

January 1, 2014 – September 17, 2015

2016M-91



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2016

Dear Company Officials:

One important function of the Office of the State Comptroller is to help fire company officials manage company resources efficiently and effectively and, by so doing, provide accountability for moneys spent to support company operations. The Comptroller oversees the fiscal affairs of fire companies statewide, as well as compliance with relevant statutes and observance of good business practices, through the conduct of audits. Our audits may also identify opportunities for improving operations and fire company governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard fire company assets.

Following is a report of our audit of the Bradford Volunteer Fire Company, Inc., entitled Apparent 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 New York State General Municipal Law.

This audit's results and recommendations are resources for fire company officials to use in effectively managing operations and in meeting the expectations of the public. 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 Bradford Volunteer Fire Company, Inc. (Company) is a not-for-profit organization that provides fire protection and emergency rescue services to residents in the Town of Bradford in Steuben County and the Town of Orange in Schuyler County (Towns), pursuant to a contract. Company volunteers engage in various fundraising activities, such as an annual gun raffle, chicken barbecues, breakfasts and hit-the-boot drives to supplement moneys received from the Towns, donations and foreign fire insurance proceeds. For the 2015 fiscal year, the Company's budgeted appropriations were \$100,000, which were funded primarily by fire protection contracts with the Towns totaling \$77,666.

The Company operates in accordance with its bylaws. The Company is governed by an elected four-member Board of Directors (Board) which is responsible for the Company's overall financial management. The Treasurer acts as the Company's chief fiscal officer and is responsible for the receipt and custody of Company funds, for disbursing and accounting for those funds and for preparing financial reports for regular meetings, annual meetings and regulatory agencies.

Scope and Objective

The objective of our audit was to evaluate the Company's financial operations for the period January 1, 2014 through September 17, 2015. We expanded our scope back to November 2011 to review bell jar activities.¹ Our audit addressed the following related question:

- Did the Board provide adequate oversight of the Company's finances?

Audit Results

The Board did not provide adequate oversight of the Company's finances. As a result, it appears the Treasurer was able to misappropriate approximately \$8,500 from January 1, 2014 through May 31, 2015 from checks written to cash, fundraising activities, donations and bank transfers without detection by Company officials. In addition, there was a shortage of \$490 in bell jar proceeds that were controlled by the President, who had not deposited bell jar proceeds totaling \$4,914 since November 21, 2011. The President deposited this amount on July 17, 2015.

These discrepancies occurred because the Board created a lax control environment by not adopting policies or procedures over financial operations, not performing a monthly audit of all claims to ensure

¹ Bell jars are games of chance in which a player draws a card from a jar, machine or some other container, and prizes may be received based on the number or symbol on it.

payments were made only for legitimate Company purposes and not performing an annual audit of the Treasurer's records in 2014 as required in the Company's bylaws. The Board also did not require the Treasurer to perform monthly bank reconciliations or ensure that the Treasurer prepared monthly and fundraising reports that were complete and accurate. Finally, the Board did not ensure the Treasurer maintained adequate accounting records, including supporting documentation for cash receipts, disbursements and transfers.

Comments of Company Officials

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

Introduction

Background

The Bradford Volunteer Fire Company, Inc. (Company) is a not-for-profit organization that provides fire protection and emergency rescue services to residents in the Town of Bradford in Steuben County and the Town of Orange in Schuyler County (Towns) pursuant to a contract. The Towns fund Company operations, which allows for the purchase of fire equipment and safety gear and maintenance of the fire hall and garage. Company volunteers engage in various fundraising activities, such as an annual gun raffle, chicken barbecues, breakfasts and hit-the-boot drives to supplement money received from the Towns, donations and foreign fire insurance proceeds. For the 2015 fiscal year, the Company's budgeted appropriations were \$100,000, which were funded primarily by fire protection contracts with the Towns totaling \$77,666.

The Company consists of approximately 20 active members and operates in accordance with its constitution and bylaws. The Company is governed by an elected four-member Board of Directors (Board) which is composed of a President, Vice President, Treasurer and Secretary. The Board is responsible for the Company's overall financial management. The Treasurer acts as the Company's chief fiscal officer and is responsible for the receipt and custody of Company funds, for disbursing and accounting for those funds and for preparing financial reports for regular meetings, annual meetings and regulatory agencies.

Objective

The objective of our audit was to evaluate the Company's financial operations. Our audit addressed the following related question:

- Did the Board provide adequate oversight of the Company's finances?

Scope and Methodology

We examined the Company's controls over financial operations for the period January 1, 2014 through September 17, 2015. We expanded our scope back to November 2011 to review bell jar activities.

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 are included in Appendix B of this report. 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.

**Comments of Company
Officials and Corrective
Action**

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

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.

Apparent Misappropriation of Funds

The Board is responsible for protecting Company money from loss, misuse or abuse by developing and implementing a system of internal controls that provides reasonable assurance that Company resources are adequately safeguarded and financial activities are accounted for properly. The Treasurer is responsible for the accurate and complete accounting of all money received and disbursed from Company funds and for maintaining accounting records that serve as the basis for preparing accurate monthly and annual reports to the Board. It is essential that all receipts, including cash received for fundraising activities, are properly recorded and promptly deposited and disbursements are made only as authorized by the Board for proper and valid Company expenditures.

Company controls were not adequate to ensure that financial activity was properly recorded and reported and that Company money was safeguarded. As a result, it appears the Treasurer was able to misappropriate approximately \$8,500 from January 1, 2014 through May 31, 2015. In addition, there was a shortage of \$490 in bell jar proceeds that were controlled by the President,² without detection by Company officials.

Figure 1: Apparent Misappropriated Funds

Description	Amount
Fundraising Activities and Donations	\$7,967
Bank Transfers	\$500
Bell Jar Proceeds (Operated by the President)	\$490
Total	\$8,957

Fundraising Activities and Donations — The Treasurer did not deposit fundraising revenue intact or in a timely manner and did not maintain or provide sufficient information to the Board. The Treasurer’s fundraiser reports would often list start-up cash, expenditures paid for the event, total amount “took in” and profit. However, they did not have the number or cost of the tickets and meals sold or sufficient detail for related expenses, such as whether they were paid by check or cash. Further, the Treasurer’s fundraiser reports did not include

² The President collected but did not deposit bell jar money since November 21, 2011.

the amount of the total deposit or attach a deposit slip for each event. Finally, Company officials were unable to provide fundraiser reports for five of the Company's 16 fundraising events. Because deposits were not timely or intact, we determined total Company revenues for the deposit period by reviewing the Treasurer's bank registers and fundraiser reports,³ fire protection contracts, deposit compositions and meeting minutes. We also issued confirmations to donors. We determined the Company received at least \$249,140.⁴ Because the Treasurer paid expenditures totaling \$9,667⁵ from fundraising proceeds, the total amount that should have been deposited into the Company's bank accounts should have been \$239,473 for collections plus \$5,325 for start-up checks⁶ written to cash. However, the Treasurer made 50 deposits totaling \$236,831. Therefore, the Treasurer did not deposit \$7,967 of the balance of collections after deducting expenditures paid in cash.

Bank Transfers — The Treasurer made bank transfers between the Company's eight bank accounts through withdrawals and corresponding deposits or by writing checks from one account to another. However, the Board does not approve bank transfers and the Treasurer does not include them in her monthly financial report. Because of this weakness, we reviewed all bank transfers totaling \$220,274 made by the Treasurer from January 1, 2014 through May 31, 2015 to ensure that transfers were made into legitimate Company accounts. We found that on March 25, 2014, the Treasurer withdrew \$9,000 in cash from the Company's money market account but only deposited \$8,500 into the Company's general checking account. Company officials were unable to provide support or an explanation for the unaccounted for \$500.

Bell Jar Proceeds — Company officials also administer bell jar games of chance during their annual gun raffle. To participate in a game, a participant draws a card from a jar, vending machine or other device or container that contains numbers, colors or symbols that are covered and which, when uncovered, may reveal a prize to be awarded based on a winning number, color, symbol or combination of numbers,

³ From January 1, 2014 through May 31, 2015

⁴ For three of the five events without fundraiser reports, we included only the net profits totaling \$929 as reported in the minutes, instead of gross revenues. For the other two events, which were breakfasts, we included \$486, which was the average revenue reported for the Company's other six breakfasts.

⁵ This amount included \$2,730 of Company checks payable to gun raffle winners that the Treasurer cashed using gun raffle proceeds.

⁶ Generally, the Treasurer wrote start-up checks for each fundraiser to obtain cash to make change for sales and occasionally pay some expenses related to the fundraiser. Therefore, the start-up cash less receipts for expenses paid by cash should have been included in the fundraiser deposits.

colors or symbols.⁷ Bell jar tickets are typically sold for 25¢, 50¢, \$1 and \$2 and have monetary prizes as high as \$500.⁸

The Company President and three other members run the bell jar, including issuing tickets and collecting money. The President controls bell jar proceeds, makes deposits, maintains the records and submits reports to the New York State (NYS) Racing and Wagering Board. The President stated that deals are generally only removed from play when they reach the 75 percent threshold for payouts and only small value payouts remain. Winning and unsold tickets are retained by the Company. Because the President collected but did not deposit bell jar money since November 21, 2011, we performed a cash count on July 17, 2015 and identified \$4,914 in cash that had not been deposited from 2012, 2013 and 2014 bell jar ticket sales.⁹ Because bell jar proceeds were not promptly deposited, we performed an accountability analysis from November 21, 2011 (last deposit date) to July 17, 2015 (cash count) to determine if all money was accounted for. We compared our cash count to unsold and winning tickets on-hand, bank disbursements and the amounts reported to the NYS Racing and Wagering Board and identified a cash shortage of \$490. The shortage was attributed to unaccounted start-up cash totaling \$400 and a \$90 difference from bell jar proceeds collected and reported to the actual deposit for the last three years of collections. Further, we found that the Company did not report its bell jar activities in a timely manner.¹⁰ The President deposited \$4,914 and completed and filed the bell jar reports with the NYS Racing and Wagering Board for the last quarter of 2012, 2013 and 2014 on June 18, 2015. Required reports for the other three quarters of each year were not filed because there were no proceeds.

Board Oversight — These discrepancies occurred because the Board did not adequately safeguard Company funds. The Board did not adopt policies¹¹ required by law or sound business practices to segregate the Treasurer's duties or provide oversight as a compensating control,

⁷ <https://www.gaming.ny.gov/charitablegaming/>

⁸ Each bell jar deal includes a specified number of tickets for sale and the number of available prizes at various dollar amounts, which is detailed on a flare. The Company is required to prominently display the deal's corresponding flare. The Company has the option to remove a deal from play once 75 percent of the prizes for the deal have been won. However, choosing this option reduces the guaranteed gross profit. Generally, the deals used by the Company had guaranteed profits ranging from \$372 to \$990.

⁹ The President deposited this amount into the bell jar account following our count on July 17, 2015.

¹⁰ Reports are required to be filed with the NYS Racing and Wagering Board on a quarterly basis.

¹¹ Code of ethics, conflict of interest policy and policies and procedures for the procurement of goods and services, cash receipts, cash disbursements and bank transfers

such as by reviewing bank statements and canceled checks. As a result, all financial activities were performed solely by the Treasurer, with the exception of the bell jar proceeds, with no Board oversight. The Board did not ensure that records and reports were accurately maintained and properly retained, revenue was properly accounted for and deposited intact and timely and financial reports were accurate. The Board also did not perform a monthly audit of all claims to ensure they were for legitimate Company purposes or perform an annual audit as allowed for in the Company's bylaws.

As a result of this weakness, we reviewed 338 claims from the Company's accounts totaling \$208,333 to determine if disbursements were legitimate Company expenditures and properly supported by invoices or itemized receipts. We found 76 disbursements totaling \$26,438 lacked adequate supporting documentation. Although the President provided support for four claims totaling \$13,636 after the completion of our fieldwork, we were unable to determine the legitimacy of the other 72 claims totaling \$12,802. Based on the vendors paid, many of the claims appeared to be reasonable Company expenses. However, several others could have been personal expenses: for example, three payments to an online retailer totaling \$747, three payments to the Treasurer's grandson for computer repairs totaling \$250, three payments to a consumer warehouse club totaling \$1,202 and four debit card purchases totaling \$490.

In addition to the inaccuracies and inconsistencies identified above, we also found the Treasurer's monthly reports were inaccurate and incomplete because they did not include 34 disbursements totaling \$14,481 and duplicated¹² four disbursements totaling \$2,790. Because of the Board's lack of oversight, almost \$9,000 of the Company's funds are unaccounted for. In July 2016, the Treasurer was arrested by the New York State Police and charged with one count of grand larceny in the third degree. Prosecution of this case by the Steuben County District Attorney's Office is pending.

Recommendations

The Board should:

1. Work with the Steuben County District Attorney to continue to investigate the questionable financial transactions identified in this report and attempt to recover any misappropriated money.
2. Ensure that deposits are made in a timely manner and that the Treasurer clearly identifies the composition of each deposit (cash or check) with adequate supporting documentation.

¹² Paid once but recorded twice on the monthly reports

3. Ensure the Treasurer prepares reports that are complete, accurate and properly supported.
4. Ensure that the President completes all required bell jar reports and files them with the NYS Racing and Wagering Board in a timely manner.
5. Adopt a code of ethics and conflict of interest policy to establish the standards of conduct expected of Company officials and members.
6. Adopt financial policies and procedures for the procurement of goods and services, cash receipts and disbursements and bank transfers.
7. Audit and approve all claims on a monthly basis prior to payment and ensure the approval is documented in the minutes.
8. Ensure that the Board performs an annual audit of the Treasurer's records.
9. Require the Treasurer to perform monthly bank reconciliations, ensure monthly Treasurer and fundraiser reports are complete and accurate and ensure that the Treasurer maintains adequate accounting records, including supporting documentation for all cash receipts, disbursements and transfers.

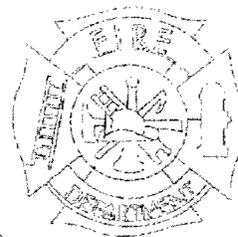
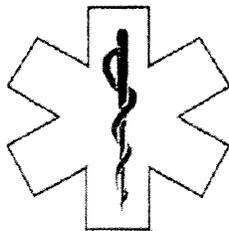
The Treasurer should:

10. Deposit fundraising revenue intact and in a timely manner.
11. Submit fundraiser reports that include the number and cost of the tickets and meals sold, detail for related expenses, such as whether they were paid by check or cash, and the amount of the total deposit or an attached deposit slip for each event.
12. Prepare complete and accurate monthly Treasurer's reports, including all transfers and other disbursements from all Company bank accounts, and present them to the Board for review.
13. Prepare complete and accurate monthly bank reconciliations and present them to the Board for review.

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

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



Bradford Volunteer Fire Company, Inc
7603 County Route 20
Bradford, NY 14815
(607) 583-2200

October 12, 2016

State of New York
Office of the State Comptroller
Division of Local Government
and School Accountability
Mr. Edward V. Grant Jr., Chief Examiner
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614

Dear Mr. Grant:

Thank you for your office's report. The Bradford Volunteer Fire Company appreciates the assistance of the Comptroller's staff.

We accept the Comptroller's findings and will submit the Corrective Action Plan as required.

Again, we wish to thank your team of examiners for their thorough examination of the Fire Company's records and the time spent with Fire Company officials in explaining the audit process and their findings.

Very truly yours,

BRADFORD VOLUNTEER FIRE COMPANY, INC.

By: _____
Rodney Hoad, President

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Company officials to gain an understanding of Company operations and the internal controls in place.
- We reviewed Board minutes and the Company's constitution and bylaws.
- We compared the Treasurer's monthly reports to bank statements to determine if the reports were accurate.
- We reviewed the fundraiser reports and records to determine if fundraiser reports were adequate and available for each event.
- We reviewed bank statements, canceled checks and deposit compositions.
- We compared all deposits to Company bank accounts to fundraiser reports, Board minutes, accounting ledgers and check registers to determine if the deposits were supported.
- We compared all documented sources of revenue, such as fire protection contracts, fundraiser reports, Board minutes and confirmations to donors, with the amounts deposited in Company accounts to determine if deposits were complete.
- We traced bank transfers between Company accounts to determine if all Company funds transferred out of Company accounts were transferred into legitimate Company accounts.
- We conducted a cash count of the bell jar revenues that were stored in the Company safe on July 17, 2015.
- We performed a physical count of the bell jar winning and unsold tickets from 2012, 2013 and 2014 and compared the values to the cash on hand and the quarterly reports that were filed with the NYS Racing and Wagering Board. We determined if the deposits were complete and made in a timely manner and if the reports were accurate and timely.
- We reviewed 338 claims paid from the Company's accounts totaling \$208,333 to determine if the disbursements were supported by invoices or itemized receipts.

We conducted this performance audit in accordance with 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.

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