



Plymouth Volunteer Fire Department

Missing Funds

Report of Examination

Period Covered:

January 1, 2010 — December 3, 2013

2014M-50



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 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 the Plymouth Volunteer Fire Department, entitled Missing 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 Plymouth Volunteer Fire Department (Department) is located in Chenango County and provides fire protection services to Plymouth Fire District (District) residents. The District provides the Department with fire equipment, safety gear and a fire house and funds the Department's fire protection service operations. The Department also engages in fundraising activities to supplement the foreign fire insurance money¹ received from the District. The Department receives approximately \$1,150 annually of foreign fire insurance funds and raises approximately \$4,350 annually from fundraising activities.

The Department is governed by a Board, which includes the President, Vice-President, Secretary and Treasurer. The Board is responsible for establishing internal controls and monitoring financial operations to ensure that assets are properly safeguarded.

Department officials requested an audit in the fall of 2013 when they discovered funds missing. Subsequently, the former Treasurer was arrested and admitted to stealing funds from the Department. The missing funds include restitution that was being paid by the Department's former President as the result of other fraudulent activity in 2009.

Scope and Objective

The objective of our audit was to evaluate the internal controls of the Department's financial operations for the period of January 1, 2010 through December 3, 2013. Our audit addressed the following related question:

- Did the Board establish adequate internal controls over cash disbursements and cash receipts to properly account for and safeguard Department funds?

Audit Results

The Board did not adequately safeguard the Department's money. The Board did not develop and implement internal controls over its cash disbursement and receipt functions, did not ensure its bylaws were followed and did not perform annual audits of the Treasurer's financial records. The Board also did not ensure that the District's adopted code of ethics applied to Department members. As a result, the former Treasurer misappropriated approximately \$17,500² of Department funds from February

¹ Foreign fire insurance money represents a tax on the premium paid on insurance policies as provided for in Insurance Law, which entitles fire departments protecting an eligible area to receive an appropriate share of the tax collected on insurance policies written by foreign insurers on policies within their area of protection.

² The former Treasurer appears to have deposited \$1,037 of personal funds into the Department's bank accounts during this period for a net misappropriation totaling \$16,419.

2011 through August 2013. Additionally, during this period, the former Treasurer made questionable disbursements totaling more than \$560. Furthermore, the former Treasurer did not maintain records of the Department's financial activities or prepare and present accurate and timely monthly reports or any annual reports to the Board. Because of the misappropriation, Department cash, which totaled approximately \$9,300 as of January 1, 2010, was reduced to \$135 when we began our audit.

Comments of Department Officials

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 recommendations and indicated they plan to initiate corrective action.

Introduction

Background

The Plymouth Volunteer Fire Department (Department) is located in Chenango County and provides fire protection services to Plymouth Fire District (District) residents. The District provides the Department with fire equipment, safety gear and a fire house and funds the Department's fire protection service operations. The Department also engages in fundraising activities to supplement the foreign fire insurance money³ received from the District. The Department receives approximately \$1,150 annually of foreign fire insurance funds and raises approximately \$4,350 annually from fundraising activities. The Department had approximately 20 active volunteer members who responded to 291 calls in 2012 and 2013.

The Department is governed by a Board, which includes the President, Vice-President, Secretary and Treasurer. The Board is responsible for establishing internal controls and monitoring financial operations to ensure that assets are properly safeguarded. The President is the Department's chief executive officer and is responsible for presiding over all meetings. The Treasurer is the chief fiscal officer and is responsible for maintaining complete and accurate records of financial transactions, depositing funds received, disbursing funds for authorized expenditures and signing checks. The Secretary is responsible for maintaining records of all Department proceedings.

Department officials requested an audit in the fall of 2013 when they discovered funds missing. Subsequently, the former Treasurer was arrested and admitted to stealing funds from the Department. The missing funds include restitution that was being paid by the Department's former President as the result of other fraudulent activity in 2009.

Objective

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

- Did the Board establish adequate internal controls over cash disbursements and cash receipts to properly account for and safeguard Department funds?

³ Foreign fire insurance money represents a tax on the premium paid on insurance policies as provided for in Insurance Law, which entitles fire departments protecting an eligible area to receive an appropriate share of the tax collected on insurance policies written by foreign insurers on policies within their area of protection.

**Scope and
Methodology**

We examined internal controls over the Department's financial operations for the period of January 1, 2010 through December 3, 2013.

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
Department 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 recommendations and indicated they plan 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, pursuant to Section 35 of the General Municipal Law. 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 in the Department Secretary's office.

Missing Funds

The Board is responsible for providing general oversight of Department financial activities and assets to protect Department money from loss, misuse or abuse. The Board can fulfill these responsibilities by developing and implementing internal controls to provide reasonable assurance that Department resources are adequately safeguarded and that all financial activities are accounted for properly. The Department's bylaws provide policies and procedures relating to control of the Department's assets by requiring the Treasurer to maintain accurate records and provide an annual report of all financial transactions. Additionally, the bylaws require two signatures on all withdrawals from Department bank accounts and the President, Secretary and Treasurer to be bonded.⁴ General Municipal Law requires fire districts to adopt a code of ethics that also applies to its volunteer fire department members, specifying expected standards of conduct. Further, financial activity oversight would be strengthened by an annual audit of the Treasurer's financial records, which can help identify errors and irregularities.

The Board did not adequately safeguard the Department's money. The Board did not develop and implement internal controls over its cash disbursement and receipt functions, did not ensure its bylaws were followed and did not perform annual audits of the Treasurer's financial records. Additionally, the Board did not adopt a code of ethics as required by General Municipal Law, which would provide standards of conduct for Department members. As a result, the former Treasurer misappropriated approximately \$17,500⁵ of Department funds from February 2011 through August 2013. During this period, the former Treasurer also made questionable disbursements totaling more than \$560. Furthermore, the former Treasurer did not maintain records of the Department's financial activities or prepare and present accurate and timely monthly reports or any annual reports to the Board. Because of the misappropriation, Department cash, which totaled approximately \$9,300 as of January 1, 2010, was reduced to \$135 when we began our audit.

⁴ Public official bonds guarantee the honesty and faithful performance of those individuals who are elected or appointed to positions of public trust.

⁵ The former Treasurer appears to have deposited \$1,037 of personal funds into the Department's bank accounts during this period for a net misappropriation totaling \$16,419.

Table 1: Misappropriation of Department Funds			
Type of Misappropriation	Personal Amounts	Questionable Amounts	Total
Treasurer's Cash Withdrawals	\$8,498	\$0	\$8,498
Payment to Treasurer	\$400	\$0	\$400
Restaurant	\$100	\$0	\$100
Unknown	\$0	\$564	\$564
Misappropriated Department Revenues	\$8,458	\$0	\$8,458
Total	\$17,456	\$564	\$18,020

Cash Disbursements

All disbursements should be for valid Department purposes, supported by an invoice or receipt and properly recorded. Additionally, the Department’s bylaws required that all withdrawals from Department bank accounts be signed by the Treasurer and countersigned by the President or Secretary.

The former Treasurer did not comply with the Department’s bylaws and made 34 cash withdrawals and check disbursements totaling approximately \$9,000 without Department members’ approval during the audit period. Of those withdrawals and disbursements, 18 had only one signature authorizing the transaction, instead of two signatures as required. Although the other 16 transactions included dual signatures, they were not for proper Department purposes and were not presented to the Department members for approval. These improper disbursements were comprised of 14 cash withdrawals and two checks (one to the Treasurer and one to a local restaurant). However, the officers who co-signed these disbursements did not question the former Treasurer about the propriety of the transactions. Additionally, 12 of these disbursements were co-signed by a relative of the former Treasurer in their official capacity as a Department officer.

We also identified five additional check disbursements totaling \$563 that were for questionable purposes. These checks were written to local vendors and could have been for legitimate Department purposes. However, Department officials were unable to provide any documentation, such as receipts or records from the Board minutes to substantiate these transactions. Therefore, we question whether these purchases were for authorized Department purposes.

Cash Receipts

The bylaws require the Treasurer to handle all Department finances, including receiving all money collected by members or otherwise due the Department, and depositing 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 and dates received, who received the money and its source. This information then becomes a summary of the amounts deposited in the bank.

The former Treasurer did not maintain any cash receipt records nor did he deposit most of the cash received in 2011, 2012 and 2013. We estimated the former Treasurer could not account for approximately \$8,458 that was never deposited. Based on the supporting documentation we reviewed,⁶ the former Treasurer did not deposit \$6,258 received from fundraising activities in 2012 and 2013 that belonged in Department bank accounts.⁷ Additionally, although there was a lack of documentation in 2011, we estimated, based on discussions with Department officials and historical trends for other cash drives as well as the amount of food typically purchased for fundraising events that about \$2,200 of Department cash received that year was also not deposited in Department bank accounts.

This loss of Department money occurred because the Board did not provide adequate oversight of the Treasurer's financial duties and failed to adhere to or strengthen the bylaws, which did not require that all disbursements be made only by check and approved by a majority of Department members. Furthermore, the Board did not implement any internal controls over the Department's financial operations that could have detected or prevented the loss. For example, no one verified any financial activity or reviewed bank statements at any time. In addition, the Board did not perform an annual audit of the Treasurer's financial records. Furthermore, the Department was unable to bond its officers due to a fraud, perpetrated in 2009 and discovered in 2010, involving a former Department officer. Therefore, during our audit period, the President, Secretary and former Treasurer were not bonded as required. After the first fraud occurred in 2009, had the Board strengthened its bylaws, improved oversight over the Treasurer's financial activities or conducted an annual audit of the Treasurer's records, the current fraud most likely would have been averted. However, there remains a risk that Department funds may again be misappropriated and not detected in a timely manner. In addition, the Board members told us that they did not adopt a code of ethics as required because many Department members were unwilling to agree to and sign the code of ethics document.

Recommendations

1. The Board should implement stronger internal controls over the Department's cash disbursement and receipt functions and amend the bylaws by requiring:

⁶ See Appendix B, Audit Methodology and Standards

⁷ In addition, \$3,058 in funds raised was properly disbursed in cash with approval of Department members.

- A periodic review of the Department’s bylaws to evaluate their effectiveness and relevance, so they can be updated accordingly,
 - That the Treasurer’s duties and responsibilities be specified, including properly reconciling and reporting bank account activity on a monthly and annual basis and
 - That training be provided for the individual serving as Treasurer to properly perform the financial duties required of the position.
2. The Board should develop and implement oversight procedures for Department officers to follow when reviewing bank records and bank reconciliations to ensure that money collected and disbursed is duly deposited and paid only for proper Department purposes. These procedures could include:
- Periodically reviewing canceled check images for proper signatures and purpose,
 - Periodically comparing a sample of checks to the claims or bills paid,
 - Verifying that money received and reported by the fundraising committee is actually deposited in Department bank accounts and
 - Annually auditing the Department’s financial records.
3. Department officials should ensure that all cash receipts are properly and timely recorded and deposited and include all supporting documentation.
4. Department officials should ensure that all cash disbursements are approved and properly and timely recorded and include all supporting documentation.
5. The Board should adopt a code of ethics as required by law.

APPENDIX A

RESPONSE FROM DEPARTMENT OFFICIALS

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

PLYMOUTH VOLUNTEER FIRE DEPARTMENT
PO BOX 112
PLYMOUTH, NY 13832
(607) 334-6805

May 1, 2014

Comptroller's Office
To: Todd Eames

Dear Todd -

We the Plymouth Volunteer Fire Department have read and accept the audit report in regards to Andrew Cushman Treasurer at the Plymouth Volunteer Fire Department that was given to us on April 7, 2014.

We will or have made the following changes:

- The department has signed the Code of Ethics that the Fire Commissioners presented to us.
- We have obtained 2 bond quotes and will be selecting on to go with in the next month.
- We will be having an annual audit of our books done, this is also a requirement from one of the bonding companies.
- We have improved practices regarding our record keeping – the books are looked at by a Social (President, Vice President or Secretary) officer other then the Treasurer at each monthly business meeting. The member who reviews the accounting book, then initials and dates it.
- We are in the process of creating documentation to be used at all Fund Raisers to document expenses, donations and profits of money taken in for the event.
- The Board of Directors is currently working on the By-Laws, a section will be added/amended regarding the Treasure's duties/responsibilities.
- We are in the process of reviewing other banks, in the hopes of switching banking institutions soon. We are also going to examine the possibility of holding NBT responsible for part of the loss of funds if possible.

Please accept this as our response and corrective action plan.

Please advise if anything further is needed from us.

Thank you –

Brian Provost
President

Plymouth Volunteer Fire Department

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the internal controls of the Department's financial operations for the period January 1, 2010 through December 3, 2013. To accomplish our objective and to obtain appropriate audit evidence, we performed the following:

- We reviewed pertinent documents such as the Department's bylaws, Board minutes, and financial records and reports for the audit period to establish criteria for our audit and assess the adequacy of the accounting records.
- We interviewed the Department President, Vice-President, Chief, Assistant Chief and Secretary to gain an understanding of Department operations.
- We interviewed the District Chairman to verify the amount of fire insurance money distributed to the Department.
- We reviewed bank statements, Board minutes and Treasurer reports. We used the bank statements to compile a complete record of transactions.
- We reviewed available supporting documentation for each Department transaction to determine whether the transaction was for valid Department purposes and to estimate the amount of missing funds.

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.

APPENDIX C

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Gabriel F. Deyo, Deputy Comptroller
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