

OFFICE OF THE NEW YORK STATE COMPTROLLER



DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Spencer Volunteer Fire Company

Apparent Misappropriation of Funds

Report of Examination

Period Covered:

March 1, 2006 – January 31, 2015

2015M-114



Thomas P. DiNapoli

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State of New York

Office of the State Comptroller

Division of Local Government and School Accountability

October 2015

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.

The following is a report of our audit of the Spencer Volunteer Fire Company, 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*

Introduction

Background

The Spencer Volunteer Fire Company (Company) is a volunteer organization located in the Village of Spencer (Village) in Tioga County. The Company is associated with the Village Fire Department, and provides fire protection for the Village and the Town of Spencer. The Company is operated in accordance with its bylaws. The Company officers consist of a President (who is responsible for enforcing the Company's bylaws), Vice-President, Secretary and Treasurer. The Board of Trustees (Board)¹ consists of three members, each serving a three-year term, and annually elects a Board Chairman. The Treasurer is responsible for the receipt and custody of Company funds, disbursing and accounting for those funds and preparing reports. For 2014, the Company received \$29,400 in revenues from foreign fire insurance, fundraising activities and donations and made \$11,900 in disbursements.

The Company's former elected Treasurer (Treasurer) was first appointed as interim Treasurer in November 2004 and was elected as Treasurer in December 2005 for the 2006 fiscal year. Thereafter, she was annually elected as Treasurer for the 2007 through 2014 fiscal years. She was removed as Treasurer in April 2014 after the Board identified irregularities related to cash receipts and disbursements that were directly related to her duties as Treasurer. On April 24, 2014, the Treasurer, Jennifer Grier, was arrested by the New York State Police and charged with grand larceny in the third degree, a Class D felony. The Tioga County District Attorney's Office prosecuted the case. On January 16, 2015, Ms. Grier pleaded guilty to grand larceny in the fourth degree, a Class E felony. On June 15, 2015, after completion of our audit fieldwork, Ms. Grier was sentenced to 90 days in jail and five years of probation and was ordered to pay restitution in the amount of \$51,843.32 to the Spencer Fire Company.

Objective

The objective of our audit was to determine if the Treasurer properly deposited receipts and if disbursements were for proper Company purposes. Our audit addressed the following related question:

- Did the Board and Committee² ensure that the Treasurer properly deposited and disbursed funds?

¹ The Board is separate from, and responsible for the oversight of, the Company officers.

² The Committee is comprised of the President along with three Company members selected by the President.

Scope and Methodology

We examined the internal controls over the Company's cash receipts and disbursements for the period March 1, 2006 through January 31, 2015.³

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 C of this report.

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 B, have been considered in preparing this report. Company officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Fire Company officials have 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 a CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage Company Officials to make this plan available for public review in the Secretary's office.

³ We chose to not extend our scope back to November 2004 as the bank could not provide us with bank statements, deposit images or canceled checks.

Apparent Misappropriation of Funds

The Company's bylaws specify the duties and responsibilities of the Board, President and Treasurer. The Board is responsible for the funds of the Company, to annually review and report on the condition of the Treasurer's accounts and records, and to audit all bills presented to the Company. Annually, the Committee should audit the Treasurer's records and report any discrepancies to the Board. The Committee should provide the results to the membership at the meeting following the completion of the audit. The Treasurer is responsible for receiving funds from fundraising events, donations and other sources and depositing the same in the company bank accounts, for paying all bills as ordered by the Company membership and for reporting to the Company membership.

The Board did not review and the Committee did not audit the Treasurer's records or bank statements for the majority of our audit period. The Treasurer did not prepare monthly bank reconciliations, and neither the Board nor the Committee reviewed bank statements and canceled checks to ensure that the Treasurer had properly recorded all transactions and reconciled cash balances. In addition, the Board did not conduct a proper audit of claims in accordance with Company bylaws. The reports prepared by the Treasurer did not always accurately reflect the total deposits or payments made from Company accounts.

Therefore, the Treasurer was able to misappropriate Company funds over a nine-year period, totaling at least \$69,705. We found that at least \$50,895 in cash receipts were not deposited and the Treasurer made 67 payments totaling \$18,810 which do not appear to be for legitimate Company purposes. The Treasurer deposited 13 personal checks totaling \$6,337 to the Company's checking account which may have been attempts toward repayment of the misappropriated funds.

In January 2014, the Board requested bank records from the Treasurer in order to perform the required review. However, the Treasurer did not provide any documents until April 2014. At this time, the Board identified irregularities related to bank statements that were altered. Upon further review, they found irregularities in cash receipts and disbursements. The Board alerted law enforcement officials and the Treasurer was removed from the Company in April 2014.

On April 24, 2014, the Treasurer, Jennifer Grier, was arrested by the New York State Police and charged with grand larceny in the third

degree, a Class D felony. The Tioga County District Attorney's Office prosecuted the case. On January 16, 2015, Ms. Grier pleaded guilty to grand larceny in the fourth degree, a Class E felony. On June 15, 2015, after completion of our audit fieldwork, Ms. Grier was sentenced to 90 days in jail and five years of probation and was ordered to pay restitution in the amount of \$51,843.32 to the Spencer Fire Company.

Cash Receipts – Over almost a nine-year period, we found that the Treasurer collected, but did not deposit, \$50,895 based on our analysis of what was collected⁴ as compared to what was deposited in the bank. The Company members collected and counted revenues for donations and fundraisers, such as golf tournaments and pancake breakfasts, and then turned these funds over to the Treasurer for deposit. Both the members and the Treasurer reported these revenues to the membership at the monthly meetings, which was documented in the minutes. For some fundraisers, informal documentation was maintained as to how many people attended the event or how much revenue was collected. However, no one maintained this documentation after it was reported at the monthly meetings. In addition, the Treasurer did not maintain any additional cash receipts documentation, such as a ledger or cash receipts journal. The Board presumed that funds turned over to the Treasurer were reported to the Board and deposited. Therefore, no one verified whether this actually occurred.

Cash Disbursements – We found that the membership approved \$54,582 in disbursements as documented in the minutes; however, disbursements of \$89,492 were not approved. The Company had very informal procedures relating to disbursements. The Treasurer was solely responsible for disbursing Company funds, and these disbursements were performed via check, wire transfer or withdrawals. Additionally, the Treasurer did not maintain accounting records or invoices to support the disbursement of Company funds. The Board trusted that funds disbursed were for legitimate Company expenditures. Therefore, no one verified the propriety of the payments.

Due to these weaknesses, the Treasurer was able to make unauthorized and improper cash withdrawals and check disbursements totaling \$18,810. These payments consisted of withdrawals, checks made out to her and her husband and checks made out to cash. The Treasurer made 13 payments totaling \$6,337 from her personal checking account that she deposited to a Company bank account. However, we could not identify a reason for any of these payments other than possible attempts towards the repayment of misappropriated funds.

⁴ We used confirmations from third parties and the Company membership meeting minutes. In a few cases, there were no or partial dollar amounts reported in the minutes. Therefore, we estimated, where applicable, using averages of all known similar events.

Additionally, of the remaining \$125,264 disbursed by the Treasurer, only \$24,801 was approved by the membership and supported.⁵ The propriety of the remaining \$100,463 could not be determined as follows:

Figure 1: Improper Disbursements		
	Instances	Amount
Approved, not Supported	72	\$29,781
Not Approved, Supported	35	\$26,734
Not Approved, Not Supported	267	\$43,948
Total	374	\$100,463

Furthermore, over the course of the Treasurer's tenure, the Company's bank accounts unnecessarily incurred \$1,434 in bank fees as a result of overdrafting, returned item fees and failing to properly maintain minimum required balances. Moreover, the records were insufficient to determine if additional cash receipts were diverted or if additional improper disbursements were made by the Treasurer.

In May 2014, a Trustee was appointed as interim Treasurer until the current Treasurer was elected in December 2014. During the interim Trustee's tenure, all known cash receipts were deposited and disbursements were generally approved and fully supported. The controls during the current Treasurer's tenure were further strengthened by establishing a formal purchase order system. All disbursements are to be accompanied by appropriate support and subsequently reviewed by the Board during the monthly audit of claims. Also, the Treasurer will provide his Treasurer's report (which are the accounting ledgers and reconciliations) along with the bank statements to the Board monthly. However, the controls were not in place long enough to determine if they were operating effectively.

Recommendations

The Board should:

1. Coordinate with applicable County departments to confirm that restitution is properly received in accordance with the Order of Restitution.
2. Ensure that all claims against the Company are audited, approved and supported.

⁵ Although the Company paid stipends to members that were supported by the bylaws, the Company was not able to provide us with any invoices for any of the other payments. We contacted the vendors directly to obtain any support they were able to provide to us.

The Board and Committee should:

3. Ensure that all receipts collected are deposited and the amounts are recorded in the minutes.
4. Ensure that a yearly review and audit of the Treasurer's records is performed and results are documented in accordance with the Company's by-laws.

APPENDIX A

APPARENT MISAPPROPRIATION SUMMARY

Figure 2: Summary of Treasurer Apparent Misappropriation		
Type	Number	Amount
Cash Receipts		
Cash Collections not Deposited		\$50,895
Cash Disbursements		
Checks Payable to the Treasurer	24	\$8,640
Checks Payable to Cash	25	\$5,860
Checks Payable to the Treasurer's Spouse	1	\$100
Withdrawals	17	\$4,210
Total Disbursements	67	\$18,810
Total Apparent Misappropriation		\$69,705
Treasurer's Personal Checks Deposited in Company Bank Account	13	\$6,337
Apparent Misappropriation (Less Apparent Repayment)		\$63,368

APPENDIX B

RESPONSE FROM COMPANY OFFICIALS

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

SPENCER FIRE DEPARTMENT
Spencer, New York



On behalf of the membership of the Spencer Volunteer Fire Company (SVFC), the village trustees of Spencer, and the residents of the Village and Town and Spencer, those that we seek to protect, I want to extend our thanks for your thorough review of our financial records and controls. The OSC has provided us a valuable service during a time when we needed to both recoup monies that were not properly controlled and to assess our new financial controls. It was our pleasure to work with the OSC team.

Specifically to address your recommendations:

The mayor, as a member of the SVFC Board of Trustees contacted the County District Attorney's office to ensure that the Village, specifically the fire department will be reimbursed in accordance with the County Court Order of Restitution. That indeed is the case. We'll consider this matter closed and follow-up annually until the roughly \$1,800 in restitution not covered by insurance is paid in full.

The voucher system implemented after my election as treasurer, around January 15th of 2015, does indeed require an officer, civil or fire, or trustee of the SVFC to approve each expense item. A Receipt and/or explanation of expense is required.

The treasurer provides a monthly report to the SVFC Membership and the Board of Trustees that both itemizes each expenditure and serves as a monthly bank reconciliation. Two copies of this report are available, one of which has the actual bank provided statements. Each month a trustee reviews this report for each bank account the department manages. While we do not record every purchase in the membership minutes, expenditures are read aloud and these Monthly Treasurer's reports are retained on file. The retention period for these reports will be current plus ten years.

An annual audit for the 2015 calendar year is currently being planned for February of 2016. Based on the current monthly visibility, the focus of this audit will be to review and ensure supporting documentation substantiates expense and to highlight any reimbursement, management, or reporting process inefficiencies. The audit report will be included in the membership meeting minutes no later than at the March 2016 membership meeting.

Should you have any question, concerns, or require any additional details about our response to the recommendations, actions taken to strengthen financial controls, or any other matter related to the audit, please contact either of us. Thank you again for your patience and assistance.

Ed Brown - SVFC Treasurer

Christine Lester – SVFC Trustee

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if the Treasurer properly deposited receipts and if disbursements were for proper company purposes for the period March 1, 2006 through January 31, 2015. To accomplish the objective of our audit, we performed the following procedures:

- We reviewed Company bylaws and interviewed Trustees and the current Treasurer to gain an understanding of the Company's internal controls over cash receipts and disbursements.
- We contacted all local banking institutions⁶ in order to reasonably determine the total number of Company bank accounts open during the audit period.
- We obtained the images for canceled checks, deposits and withdrawals, as well as the bank statements for March 1, 2006 through January 31, 2015, for all Company bank accounts and documented all disbursements including checks, wire transfers and withdrawals. We attempted to trace all 554 disbursements to either a deposit to a Company bank account (a banking transfer or withdrawal) or to supporting documentation to determine if they were appropriate Company expenses. We traced the disbursements that were not banking transfers to Company membership meeting minutes⁷ to determine if they were approved and to invoices⁸ or bylaws to determine if they were supported. Invoices were lacking for the majority of our scope period, therefore, we attempted to contact all 68 vendors (not individuals) for supporting documentation. We sent 57 requests to the vendors, we were able to find addresses for and we received 31 responses. Then, based on the quality of information received, type of vendor, dollar amount purchased and whether the purchases were membership approved, we sent additional requests to 19 vendors and we received six of those back. We also scanned the endorsements of all checks for anything unusual or suspicious.
- Using the bank evidence noted above and Company membership meeting minutes, we developed a cash receipts journal to determine how much should have been deposited by the Company and traced those amounts in total to the actual deposits to verify they were deposited. For the cash receipts journal, we included what was reported to the membership (in 11 instances we had to calculate the amount collected by obtaining averages for similar events), any large checks noted in the deposit images that were not reported in the minutes and amounts that the state paid to the Company. For the amounts deposited, we documented all deposits from the bank statements with the exception of bank transfers, redeposited withdrawals, payments from the Treasurer to the Company, deposits returned by the bank and any inapplicable related direct deposits such as those for interest and ACH penny-tests.

⁶ Within a 20-mile radius

⁷ We scanned the minutes one month prior to and subsequent to the date of each disbursement. The payee listed on the check had to match the payee noted in the minutes and the dollar value had to be within \$10 of the approved amount.

⁸ The invoice had to be addressed to the Company, match the payee on the check, be the exact dollar value of the check and have sufficient detail to discern what was purchased.

- We reviewed all bank statements for all Company accounts to determine all net bank fees incurred as a result of overdrafting, return of deposited items and failure to maintain minimum required operating balances.
- We reviewed all deposit images for all Company accounts to determine the total payments made from the Treasurer to the Company.

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 D

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