



Tupper Lake Volunteer Fire Department, Inc.

Misappropriation of Funds and Board Oversight

Report of Examination

Period Covered:

April 1, 2009 — December 31, 2013

2014M-229



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

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Dear Department Officials:

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

Following is a report of our audit of the Tupper Lake Volunteer Fire Department, Inc., entitled Misappropriation of Funds and Board Oversight. 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 department 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 Tupper Lake Volunteer Fire Department, Inc. (Department) provides fire protection to the Town of Tupper Lake, the Village of Tupper Lake (Village) and the Town of Santa Clara in Franklin County. The Department has two fire stations and approximately 50 volunteer members and consists of three fire companies. Its assets are owned by the Village, and the Village oversees and funds the Department's operations. The Department received approximately \$4,200 annually from the Town of Santa Clara for the 2009-10 and 2010-11 fiscal years, received approximately \$11,600 annually of foreign fire insurance premiums and raised approximately \$39,000 annually from fundraising activities.

The Department is governed by a 12-member Board of Directors (Board), which includes the Fire Chief (Chief), First Assistant Chief, Second Assistant Chief, President, Treasurer, Secretary, three Company Captains and three Company Lieutenants. The Treasurer is the chief fiscal officer and is responsible for maintaining complete and accurate records of financial transactions, depositing funds, disbursing funds for authorized expenditures and signing checks.

In August 2013, the Chief reviewed the Department's accounting records and discovered that the former Treasurer was using the Department's credit card to make personal purchases. Subsequently, the Chief and the Village's Chief of Police requested that we perform an audit of the Department's financial operations. In June 2014, we completed our fieldwork and provided our audit findings to the Office of the State Comptroller's Division of Investigations (DOI), which then provided this information to the Chief of Police for use in the criminal investigation. The former Treasurer served from 2008 until he was relieved of his duties in October 2013.

On December 2, 2014, after the completion of our fieldwork, the former Treasurer provided a statement to DOI and the Village's Chief of Police in which he stated that during a period of three to four years, he used Department credit cards for his own personal use and took cash from Department fundraising events.

Scope and Objective

The objective of our audit was to evaluate internal controls over the Department's financial operations for the period April 1, 2009 through December 31, 2013. Our audit addressed the following related questions:

- Did the former Treasurer¹ properly account for and process Department financial transactions?

¹ For the purposes of this report, "Treasurer" refers to the former Treasurer unless indicated otherwise.

- Did the Board establish adequate controls to ensure that financial activities are properly recorded and that Department moneys are safeguarded?

Audit Results

The former Treasurer did not properly account for or process the Department's financial transactions. Because the Treasurer performed all of the Department's financial responsibilities without any oversight, the Board was unaware that the Department's records were inaccurate or incomplete and the Treasurer was using Department funds for personal use.

The Treasurer used the Department's credit card to make personal purchases totaling \$5,042 and paid for them with Department funds. Also, the Treasurer withdrew \$16,325 in cash from the Department's bank accounts. However, we could not determine if these funds were used for legitimate Department purposes. In addition, the Treasurer did not provide adequate information to the Board regarding how much the Department collected during its fundraising events, which likely resulted in funds being diverted for non-Department purposes.

The Board did not establish adequate controls, such as establishing effective financial procedures to oversee the Department's financial operations, to ensure that the Treasurer properly recorded financial activities and that Department moneys were safeguarded. Although the Treasurer performed virtually every aspect of the Department's financial business, the Board did not review or monitor the Treasurer's work. The Board did not adequately oversee Department purchases, audit claims or monitor the use of Department credit cards. Because the Board did not provide any oversight of the Treasurer's financial activities, this created an extremely weak control environment that allowed the Treasurer to make improper transactions and credit card purchases without detection.

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 planned to initiate corrective action.

Introduction

Background

The Tupper Lake Volunteer Fire Department, Inc. (Department) provides fire protection to the Town of Tupper Lake, the Village of Tupper Lake (Village) and the Town of Santa Clara, in Franklin County. The Department has two fire stations and approximately 50 volunteer members and consists of three companies. Its assets are owned by the Village, and the Village oversees and funds the Department's operations. The Department contracts directly with the Town of Santa Clara to provide fire protection, receives foreign fire insurance money² and engages in fundraising activities to supplement the funds received for its operations from the Village's budget. The Department received approximately \$4,200 annually from the Town of Santa Clara for the 2009-10 and 2010-11 fiscal years,³ received approximately \$11,600 annually from foreign fire insurance premiums and raised approximately \$39,000 annually from fundraising activities.⁴

The Department is governed by a 12-member Board of Directors (Board), which includes the Fire Chief (Chief), First Assistant Chief, Second Assistant Chief, President, Treasurer, Secretary, three Company Captains and three Company Lieutenants. The Board is responsible for establishing internal controls and monitoring financial operations to ensure that assets are properly safeguarded. The Chief 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 accounting for and reporting all cash received and collected to the Board, maintaining complete and accurate records of financial transactions, depositing funds, disbursing funds for authorized expenditures and signing checks.

In August 2013, the Chief reviewed the Department's accounting records and discovered that the former Treasurer was using the Department's credit card to make personal purchases. Subsequently, the Chief and the Village's Chief of Police requested that we perform an audit of the Department's financial operations. The former Treasurer served from 2008 until he was relieved of his duties in October 2013.

² Foreign fire insurance money represents a tax on the premium paid on insurance policies as provided for in the New York State Insurance Law, which entitles fire departments protecting an eligible area to receive a share of the tax collected on insurance policies written by foreign insurers on policies within their area of protection.

³ The Department's fiscal year is from April 1 through March 30.

⁴ We calculated these revenues based on the amount of profit that the Treasurer reported in the minutes of the Board's proceedings. We estimated the fundraising collections by using the amounts reported by the Treasurer compared to our revenue calculations, which were based on the deposited amounts and recorded fundraising expenditures.

In June 2014, we completed our fieldwork and provided our audit findings to the Office of the State Comptroller’s Division of Investigations (DOI), which then provided this information to the Chief of Police for use in the criminal investigation. On December 2, 2014, after the completion of our fieldwork, the former Treasurer provided a statement to DOI and the Village’s Chief of Police in which he stated that, during the three to four years before leaving office, he used Department credit cards for his own personal use and took cash from Department fundraising events.

Objective

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

- Did the former Treasurer⁵ properly account for and process Department financial transactions?
- Did the Board establish adequate controls to ensure that financial activities are properly recorded and that Department moneys are safeguarded?

Scope and Methodology

We examined the Department’s internal controls over financial activities for the period April 1, 2009 through December 31, 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 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, 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 Secretary’s office.

⁵ For the purposes of this report, “Treasurer” refers to the former Treasurer unless indicated otherwise.

Treasurer's Activities and Misappropriation

It is essential that fire departments establish adequate internal controls over accounting activities to ensure that all financial transactions are accurately accounted for and are for appropriate department business. The Department's bylaws provide guidance related to the Treasurer's responsibility to account for all Department funds and pay bills that are reviewed and approved at the Board meetings. The Treasurer is required to keep accurate records of all cash disbursements and receipts of the Department and deposit all cash receipts in a designated Department bank account. Additionally, the bylaws require the Treasurer to provide an accounting of the Department's financial condition at every Board meeting.

The former Treasurer did not properly account for or process Department financial transactions. Because the Treasurer performed all of the Department's financial responsibilities without any oversight, the Board was unaware that the Department's records were inaccurate or incomplete and that the Treasurer was using Department funds for personal use. It appears that the Treasurer used the Department's credit card to make personal purchases totaling \$5,042 and paid for them with Department funds. Also, the Treasurer withdrew \$16,325 in cash from the Department's bank accounts. However, we could not determine if these funds were used for legitimate Department purposes. In addition, the Treasurer did not provide adequate information to the Board regarding how much the Department collected during its fundraising events, which likely resulted in funds being diverted for non-Department purposes.

Figure 1: Treasurer's Apparent Misappropriation of Department Funds

| Fiscal Years | Number of Credit Card Purchases | Amount of Credit Card Purchases | Number of Cash Withdrawals | Amount of Withdrawals |
|----------------------|---------------------------------|---------------------------------|----------------------------|-----------------------|
| 2009-10 | 0 | \$0 | 2 | \$2,350 |
| 2010-11 | 33 | \$1,429 | 5 | \$5,900 |
| 2011-12 | 25 | \$1,306 | 4 ^a | \$3,475 |
| 2012-13 | 20 | \$848 | 2 | \$4,600 |
| 2013-14 ^b | 25 | \$1,459 | 0 | 0 |
| Totals | 103 | \$5,042 | 13 | \$16,325 |

^a The Treasurer withdrew \$3,500 in two separate withdrawals from two Department savings accounts for the annual chicken barbeque fundraiser. We estimate approximately \$2,500 of the proceeds from this event may be unaccounted for.

^b We reviewed part of the fiscal year from April 1, 2013 through December 31, 2013.

Treasurer's Records

According to the bylaws the Treasurer is required to keep accurate records of all Department receipts and disbursements and report the Department's financial condition to the Board at every Department

meeting. The Board should ensure that the bylaws contain adequate guidance and adopt procedures to ensure that the Treasurer reconciles bank statements and to describe how the Treasurer should account for transactions and report bank account activity to the Board.

The Treasurer did not maintain accurate records of the Department's financial activities. Furthermore, the Department did not have clear guidance in its bylaws or adopt adequate procedures to ensure that the Treasurer reconciled bank statements or describe how the Treasurer should account for all transactions and report bank account activity to the Board.⁶

Department officials could not find any financial records for the period April 1, 2009 through December 31, 2010. There were no manual cash disbursement ledgers, bank statements, deposit information, receipts, invoices or credit card statements for this time period.⁷ Also, we compared all bank statement activity (deposits and disbursements) to the records that the Treasurer maintained during the remainder of our audit period⁸ and found that the records were incomplete or inaccurate. For example, the Treasurer maintained manual cash ledgers (ledgers) for the Department's checking account, but not for the Department's three savings accounts.

In addition, when we examined these ledgers, we found that they included all the deposits made to the checking account. However, we could not determine if the Treasurer accurately recorded all disbursements in the ledgers, because the Treasurer did not maintain sufficient supporting documentation to identify all Department payments. Furthermore, Department officials could not determine if the running cash balance recorded in the ledgers was accurate, because the Treasurer did not prepare any bank reconciliations during our audit period. The Treasurer also did not maintain any cash receipts records during our audit period. For example, the Department did not have any records of money collected at its various fundraising events.

The Treasurer reported only limited financial information to the Department at its meetings. He reported the amount of money that was available in the bank accounts and the amount of money that was raised at various fundraising events. We did find written reports that stated the total money available, total income and total claims paid on a monthly basis.⁹ However, these reports did not provide any details related to the income earned or the claims paid, such as the

⁶ Refer to the Policies and Procedures section for further information

⁷ The Fire Chief and the local police obtained copies of the bank statements, canceled checks, credit card statements and receipts from a local convenience store for our entire audit period.

⁸ January 1, 2011 through December 31, 2013

⁹ These reports were available April 1, 2009 through March 31, 2013.

sources of income, dates of receipts or disbursements, vendor names and description of goods or services acquired. Also, the Treasurer did not maintain any financial records to support the amount of money that he reported was raised at the various fundraising events.

When financial data is not complete, accurate or up-to-date, the Department's financial condition cannot be readily determined by the Board or other interested parties, and there is a loss of accountability over Department resources.

Credit Card Charges

One of the Treasurer's responsibilities is to ensure that 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 Treasurer should present credit card statements to the Board for its review and approval before paying the monthly credit card bill. The Department credit card should never be used for personal purchases.

The Department had a general credit card account and issued cards for this account to the Treasurer, former Chief and Second Assistant Chief. Each of these Department officers could make credit card purchases without prior Board authorization. Also, the Treasurer did not present the Board with detailed credit card statements during our audit period. Therefore, the Department officials who signed the checks to pay the monthly credit card bills,¹⁰ other than the Treasurer, did not know what had been purchased with the credit cards.

The current Chief became concerned when the Treasurer asked him to sign a check to pay a credit card bill but would not show him the related credit card statement. The Chief told us that when he asked the Treasurer for the credit card statement, the Treasurer did not provide the statement to the Chief and instead asked one of the Assistant Chiefs to sign the check. Because of the Treasurer's reaction, the Chief obtained copies of the credit card statements and found what appeared to be improper charges.

We reviewed all 360 credit card purchases, totaling \$53,801 made during our audit period by Department officials and found that 137 totaling \$8,262 were non-Department purchases. Of these, we found that 103 totaling \$5,042 appear to be personal purchases made by the Treasurer. Of the 103, 61 totaling \$3,378 did not have receipts. As a

¹⁰ The Board required two signatures on all Department checks. The Fire Chief, two Assistant Chiefs and the Treasurer all were authorized by the Board to sign checks.

result, we were unable to determine the purpose of all the purchases. However, based on available receipts and information provided by the Chief, we were able to determine the following inappropriate purchases were made by the Treasurer:

- Seventy-seven gasoline purchases totaling \$2,710 from various vendors. Department officials told us that the Department purchases fuel from the Village. Also, Department officials are supposed to use the Department's specific gas retailer credit card to purchase gasoline when traveling outside of the area for Department purposes. Therefore, the Treasurer did not have a Department-related purpose or need to purchase gasoline from these vendors.
- Two purchases totaling \$566 made in May 2013 for hotel lodging and parking fees at a hotel in North Carolina. A Department official told us that the Treasurer took a vacation in North Carolina during that time. Also, the current Chief told us there was no Departmental purpose for travel into North Carolina.
- Nine purchases totaling \$515 for food and beverages from local merchants. The Department had a charge account at these stores, which would bill the Department for purchases. Therefore, it was inappropriate for the Treasurer to use the general credit card to make Department-related purchases at these establishments.
- Five purchases totaling \$359 for an external computer hard drive and computer printer ink. The current Chief told us that there was no external hard drive at the fire house and the Department's computer printer does not use the brand of ink purchased.
- Four purchases totaling \$350 made from various merchants in Boston, Massachusetts for a scenic tour, a subway/bus transportation card and items purchased at a sportswear store and restaurant.
- A \$196 plane ticket for the Treasurer's son to travel from Boston, Massachusetts to Plattsburgh on November 25, 2011. Department officials told us that there was no legitimate Department-related reason to travel from Boston and the Treasurer's son attended college in Boston during that period.
- A \$120 charge for a gambling website.

Of the remaining 34 purchases totaling \$3,220 that were personal credit card charges, we were unable to determine who made the purchases because 33 did not have supporting receipts. However, we found that they were inappropriate, as follows:

- Nine purchases totaling \$1,421 for food and supplies made at department and grocery stores, which Department officials told us would not be legitimate Department purchases.
- Ten purchases totaling \$523 made from various restaurants around the State, including restaurants located in Latham, Malone and Queensbury. The current Chief told us these purchases most likely were not legitimate Department purchases.
- Two purchases totaling \$319 for hotel lodging in Queensbury and Massena. The current Chief told us they most likely were not legitimate Department purchases.
- Three on-line purchases totaling \$315 made from Staples.com, which did not have supporting receipts. All other purchases from Staples were made at a store located in Plattsburgh and were supported by receipts. Furthermore, the Chief told us he was unaware of any approved on-line purchases from Staples.

The Treasurer received and opened the credit card statements and prepared and signed the checks to pay the credit card bills. While some of the charges could not be directly connected to the Treasurer, because other Department officers also had Department-issued credit cards, the Treasurer ultimately was responsible for overseeing the payments. The Treasurer did not present the detailed credit card statements to Department officials for review and approval and presented checks for a second signature to other Department officers without providing any supporting credit card statements for them to review.

Because Department officials did not provide any oversight of the Department's credit card charges, officials initially 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.

Cash Disbursements

It is essential for the Treasurer to ensure that disbursements of Department moneys are for appropriate and necessary charges and to maintain adequate supporting documentation for all Department disbursements. All claims should be presented to the Board, along with supporting documentation such as invoices or other information

indicating the date and purpose for each proposed disbursement and the amount to be paid. Every claim should be adequately reviewed and approved by the Board prior to the Treasurer making payments. Additionally, the Department requires that all checks and withdrawals from Department bank accounts be signed by two officers. The Treasurer, the Chief and the two Assistant Chiefs have the authority to sign checks for Department bank accounts.

The Treasurer did not present any claims to the Board for its review and approval before or after he paid the claims. As a result, the Board did not review any of the Department's disbursements and, consequently, was not given the opportunity to determine whether Department funds were being spent appropriately. On a monthly basis, the Treasurer gave the Chief ¹¹ multiple checks to sign. However, the Treasurer did not provide the Chief with any claims or other adequate supporting documentation to indicate what the payments were for. The Chief told us that the Treasurer gave him an envelope containing various receipts each month, along with the checks to be signed, which the Chief did not review. We reviewed these receipts and found they did not contain adequate documentation to support the disbursements made by the Treasurer.

The Department made 1,360 check disbursements, totaling \$304,591, during our audit period. We reviewed all of these disbursements, which included check disbursements and electronic payments, and found that 1,180 totaling \$274,930 appeared to have been legitimate Department expenditures. We were unable to review the check images for the remaining 180 check disbursements totaling \$29,661¹² and, therefore, could not determine whether they were appropriate Department expenditures. In addition, we found that, of the 1,360 check disbursements, 1,015 totaling \$194,266 did not have invoices as supporting documentation for the purchases.

We also reviewed the endorsements on the canceled check images and found that 1,167 checks totaling \$270,656 appeared to be properly endorsed by the payee. However, we could not determine if 13 check images totaling \$4,274 were properly endorsed because we did not receive a copy of the back of the checks.

During our audit period, the Department also made 289 electronic transfers of funds totaling \$398,339 and 26 cash withdrawals totaling \$32,273. The electronic transfers were made between the Department's four accounts and appeared to be for legitimate purposes. Of the 26

¹¹ This individual served as the Department's Fire Chief until April 2013.

¹² Subsequently, we found that these disbursements consisted of Department credit card payments made at the same bank the card was issued from, online credit card payments and Department checks cashed at the same bank where the Department had an account.

cash withdrawals, we found that 13 totaling \$16,325 did not have appropriate supporting documentation, and, as a result, we could not determine if they were for valid Department purposes. Furthermore, five withdrawals totaling \$6,450 had only the Treasurer's signature on the withdrawal slip, without a required second signature. Therefore, the Treasurer was able to make questionable and significant cash withdrawals from Department accounts with little or no oversight, leaving the Department vulnerable to potential theft and misuse of funds.

Although 13 cash withdrawals totaling \$15,948 had appropriate supporting documentation, we found that the Department was in the habit of withdrawing large amounts of cash for various activities. This is problematic because it reduces the Board's ability to determine how the cash is being spent and creates a greater risk that it might not be used for legitimate Department purposes. For example, the Department approved a \$3,000 cash withdrawal for travel costs for members to attend a June 2009 convention. Travel expenditures and conference attendance fees should not be paid in cash, but rather made with credit cards designated for travel expenditures and checks for conference fees. Not only does this provide the Board with an opportunity to examine the expenditures before they are paid, it also reduces the opportunity for theft or loss of cash while traveling.

The Treasurer also made questionable cash withdrawals totaling \$3,500 for the Department's annual chicken barbeque fundraiser. In June 2011, the Treasurer withdrew \$2,000 and \$1,500 from two different Department savings accounts as start-up money for the event. The current Chief told us that this amount of start-up cash was unreasonable considering the Department paid for the event's food and supplies by check and the only cash needed would have been to make change for those who purchased a meal at the event. However, Department officials could not provide us with specific checks that they had written or corresponding invoices to determine how much chicken was purchased for the event. Furthermore, the Department did not maintain a record of meals sold, making it impossible to determine how much money was raised and should have been deposited at the bank.

We found two bank deposits totaling \$3,938¹³ that were made on July 15, 2011. However, based on the available records, we were unable to determine if these deposits were related to the fundraiser. We did not find any other deposits that appeared to be from the barbeque proceeds. In addition to the questionable start-up withdrawals, we believe a substantial portion of these proceeds are missing. According

¹³ \$2,938 in cash and \$1,000 in checks

to verbal reports given to the Board by the Treasurer, in subsequent years the Department recognized profits of \$4,195 in 2012 for this event and \$3,176 in 2013. Had the Department profited at least \$3,000 in 2011, it would have deposited a total of \$6,500.¹⁴ If the July 15 deposit was for the barbeque, approximately \$2,500 would remain unaccounted-for.

Large cash withdrawals from Department bank accounts reduce accountability over Department funds and increase the risk that moneys may be spent inappropriately and remain undetected.

Fundraising Receipts

The bylaws require the Treasurer to receive all money collected by members 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 Treasurer did not maintain any cash receipt records during our audit period. However, the Treasurer periodically provided verbal reports at Department meetings on moneys collected at various fundraising activities. Additionally, during the middle of the 2013-14 fiscal year,¹⁵ the Treasurer provided the Board with a handwritten document that listed moneys collected at Department fundraising activities. However, because the Treasurer did not maintain receipts or other documentation that would verify the amounts raised, it is impossible for Department officials to know whether all fundraising receipts were included in these reports or on the submitted document. Also, Department officials could not determine whether the Treasurer deposited all fundraising collections into Department accounts.

We reviewed all 151 deposits totaling \$298,221, made from April 1, 2009 through October 31, 2013 and found that 139¹⁶ totaling \$235,702 did not have any supporting documentation to indicate the source of the funds deposited. In addition, because the Treasurer did not maintain adequate records to indicate when the Department received the funds, we could not determine if the Treasurer made 145 deposits totaling \$250,323 in a timely manner.

Because the Board did not implement any internal controls over the Department's financial operations, Department officials did not prevent or even detect the Treasurer's misappropriation of Department moneys.

¹⁴ \$3,500 in start-up costs plus \$3,000 in profit

¹⁵ The Department's fiscal year runs April 1 through March 31.

¹⁶ The remaining 12 deposits totaling \$61,076 were from foreign fire insurance proceeds and the Town of Santa Clara.

Recommendations

The Board should:

1. Amend the bylaws to include more specific guidance regarding the Treasurer's duties and responsibilities, specifically to require the Treasurer to properly reconcile all bank statements with Department records and report bank account activity to the Board on a monthly and annual basis.
2. Ensure that the Treasurer presents all claims, including payments for credit card purchases, to the Board for approval prior to disbursing Department funds. The Board should perform a thorough review of supporting documentation for all claims to ensure all payments are for appropriate Department purposes.
3. Seek reimbursement for the \$8,262 of credit card purchases that were not for Department purposes. Documentation of personal credit card charges made by the Treasurer should be referred to law enforcement officials.
4. Ensure that all fundraising events have detailed records of the amounts collected and the Treasurer deposits cash receipts in the Department's bank account in a timely manner.
5. Determine if funds are missing from the annual fundraisers and seek reimbursement.

Department officers who are authorized to sign checks should:

6. Review documentation supporting payments prior to signing checks.

Board Oversight

The Board is responsible for managing and overseeing the Department's financial operations and safeguarding its resources. These duties include establishing a system of internal controls to provide reasonable assurance that cash and other resources are properly safeguarded, transactions are authorized and properly recorded and financial reports are accurate and reliable. The Board must adequately segregate incompatible financial duties and/or review and monitor the work performed by those whose financial duties are incompatible. Additionally, the Board is responsible for overseeing the Department's purchasing and claims auditing functions to ensure that all claims are proper Department expenditures and include supporting documentation.

The Board did not have effective financial procedures in place to oversee the Department's financial operations. Despite the Treasurer performing virtually every aspect of the Department's financial business, the Board did not review or monitor the Treasurer's work. The Board did not adequately oversee Department purchases, audit claims or monitor the use of Department credit cards. Because the Board did not provide any oversight over the Treasurer's financial activities, this created an extremely weak control environment that allowed the Treasurer to make improper transactions and credit card purchases without detection.

Policies and Procedures

Effective internal controls over financial operations include policies and procedures designed to provide proper segregation of financial duties and managerial oversight of financial activities. It is important for the Board to adopt policies and procedures that segregate the transaction approval, accounting and asset custody functions to prevent or detect errors and fraudulent activity in a timely manner. These policies and procedures also should require Department officials to provide independent oversight of the work performed by those involved in financial operations.

The Board had not adopted any written policies and procedures for financial operations other than the bylaws, which were inadequate. The bylaws establish responsibilities for the Treasurer, Secretary, President and other individuals, but did not address the areas of financial operations or contain any provisions related to responsibilities for check signing, purchase approval, depositing moneys and collection of moneys at fundraising events. In addition, the bylaws did not contain the required code of ethics to provide standards of conduct and procedures for disclosure of interests.

However, in December 2013, the Board adopted a fiscal policy (policy) and code of ethics. The policy provides adequate controls over cash receipt and disbursement transactions and Department purchases. In addition, the policy requires the Treasurer to report the status of the Department's finances monthly at all officer and Department meetings in writing on a Board-approved form. The form requires the Treasurer to show the bank account activity and list all checks that have been written. When properly filled out, this form provides adequate information for the Board and membership to monitor the Department's cash resources.

Segregation of Duties

Good management practices require the proper distribution of duties so that one individual does not perform incompatible functions. To safeguard cash, more than one individual should receive and deposit cash, transfer funds between bank accounts, prepare and sign checks and record transactions in the accounting records. If it is not practicable to adequately segregate financial duties, the Board should implement compensating controls, such as reviewing bank statements, canceled checks and bank reconciliations on a monthly basis to ensure that cash receipts are properly accounted for and disbursements agree with Board authorizations. The Board should routinely compare check numbers and amounts paid as indicated in the bank statements with the claims it previously approved for payment and periodically review the Department's accounting records to ensure they are accurate and complete.

The Treasurer performed all Department financial transactions, including receiving and depositing cash, transferring funds between accounts, preparing and signing checks and recording cash transactions in the accounting records. He also was responsible for reconciling the bank statement, but did not perform these reconciliations. Although the Department had a mitigating control in place by requiring two authorized signatures¹⁷ on all checks, this control was ineffective because the former Chief signed the checks without reviewing the bills being submitted for payment.

The Board did not implement any other adequate compensating controls to decrease the risks associated with the Treasurer performing all aspects of the Department's financial activity. For example, the Board did not require the Treasurer to submit any financial reports that would have allowed the Board to monitor the Treasurer's work. The reports that the Treasurer provided to the Board included only a list of bank account balances, but not the actual detailed bank statements. In addition, the Board did not require the Treasurer to submit accounting

¹⁷ The Fire Chief, the two Assistant Chiefs and the Treasurer were authorized to sign Department checks.

records with detailed revenue and expenditure information. Had the Board performed even a cursory review of the Treasurer's records, it would have identified the numerous cash withdrawals that the Treasurer had made from the Department's savings accounts which did not have appropriate Department purposes.¹⁸

Claims Auditing

The Board should perform a thorough audit of all claims prior to payment to ensure the legitimacy and propriety of those expenditures to safeguard Department funds. The audit of claims provides a critical control procedure for the Board to provide oversight of Department expenditures.

The Board did not audit and approve the claims against the Department before the Treasurer paid them. Although the meeting minutes indicated that the Board approved the claims for payment, both the current and former Chief told us that the claims were not being reviewed prior to payment, and that the Board did not properly oversee the former Treasurer's activities. Department officials did not provide us with any evidence that the Board was aware of, audited or approved the hundreds of checks that were prepared by the Treasurer throughout our audit period.

Because the Board did not properly audit and approve claims prior to payment, the Treasurer was able to make 103 credit card purchases totaling \$5,042 for goods and services that appear to be personal in nature without detection.¹⁹ Also, weak internal controls over claims processing could lead to the Department paying for services not rendered or goods not received, or the Department could be overcharged for services or goods.

Credit Card Oversight

An effective system of internal controls requires the Board to adopt a sound credit card policy. The policy should identify the individuals who are authorized to use credit cards, provide dollar limits for purchases and establish control procedures over the custody of the credit cards and the monitoring of their use. It should also describe the types of purchases allowed, documentation required to support the purchases and responsibilities of the cardholders for unauthorized purchases.

The Board did not establish any policies and procedures for Department credit card usage. During our audit period, the Department had general purpose, store and gas credit card accounts and issued 10 credit cards from these accounts to the former Chief, First Assistant

¹⁸ Refer to the Disbursements section for further information on these inappropriate cash withdrawals.

¹⁹ Refer to the Credit Card Charges section for further information on the inappropriate purchases made with the Department's credit cards.

Chief, Second Assistant Chief, Treasurer and a Department member.²⁰ Although the Board did not approve any of the credit cards purchases before they were made, the current Chief told us that all purchases over \$250²¹ were supposed to be approved in advance of the purchase. However, this prior-approval requirement was not documented in the bylaws or in a Board resolution. Also, Department officials told us that the Board did not review credit card statements and receipts for the purchases before the Treasurer paid the credit card bills.

General Purpose Credit Card – We reviewed all 360 purchases, totaling \$53,801 made during our audit period with the general purpose card and found that 244 totaling \$41,731 did not have any receipts to support the purchases and 137 totaling \$8,262 were non-Department purchases.²² The Treasurer did not always make the credit card payments in a timely manner, which caused the Department to pay \$243 in late fees and \$230 in interest charges during our audit period.

Store Credit Card – The Department paid \$10,789 for store credit card purchases during our audit period. Of these purchases, we were able to review 27 totaling \$7,576²³ and found that five totaling \$989 did not have any receipts to support the purchases. Also, two purchases totaling \$124 for a paper shredder and movie were non-Department purchases. The Department does not normally buy movies, and Department officials were unable to locate a shredder at the fire house. The Treasurer did not always make the credit card payments in a timely manner, which caused the Department to pay \$125 in late fees and \$74 in interest charges during our audit period.

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, created a weak control environment that allowed the Treasurer to use the Department's credit card to make personal purchases.

In December 2013, the Board adopted a policy that requires it to review and approve all credit card purchases at its meetings. In addition,

²⁰ The former Chief (one credit card from each account), First Assistant Chief (gas card), Second Assistant Chief (general purpose and gas card), Treasurer (one from each account) and the Department member (gas card)

²¹ During interviews with other Department officials, we found that the lack of a written policy also resulted in inconsistencies in their understanding of dollar thresholds requiring approval. Two Department officials told us that Board approval was required before making any credit card purchases and prior to all other purchases that cost more than \$200.

²² Refer to the Credit Card Charges section for further information

²³ Although Department officials were unable to provide us with all of the store credit card statements for our entire audit period, we were able to review \$7,576, or 70 percent, of the purchases.

when Department officials or members want to use a Department credit card to make a purchase, the policy requires them to fill out a form that describes the purchase and submit the form to a Department official for approval before making the purchase.

Annual Audit

It is a good business practice for the Board to audit the Treasurer's financial records, including bank statements, on an annual basis. An annual audit gives the Board an opportunity to monitor its fiscal records and procedures. The audit of these records and reports serves an important internal control function by providing independent verification that the records have been maintained in accordance with established procedures, transactions have been properly recorded and cash has been properly accounted for.

The Board did not perform an annual audit of the Treasurer's financial records. Although the Board thought that the Department was having an audit completed on an annual basis by a local certified public accountant (accountant), the accountant was reviewing only the checking account activity provided by the Treasurer. In addition, the accountant did not provide the Board with a written audit report or financial statements. The accountant provided the Board with one page that described banking activity for the Department's checking account, but not the Department's other bank accounts.

In the process of preparing this one page description of banking activity, the accountant would not have been able to detect any apparent misappropriation of money. However, if the Board had performed an annual audit of the Treasurer's records, it would have reviewed all of the Department's bank statements and paid invoices, bills and credit card statements. If the Board had completed just these few audit procedures, it would have detected the misuse of Department funds.

Department officials also told us that the Village and Department hired a certified public accountant (CPA) in 2006 to examine internal controls over cash disbursements. We reviewed the CPA's report and found it indicated the same concerns regarding internal control weaknesses that we found during our fieldwork. For example, the CPA report indicated that the Department did not have any formal document that listed the proposed cash disbursements for the Board's review and approval, and the Board was not auditing the Treasurer's financial records.

The Board's failure to understand the level of service being provided by the accountant, audit the Treasurer's financial records and address the weaknesses indicated in the CPA's report created the opportunity that allowed the Treasurer to apparently misappropriate \$21,367 in Department funds. Furthermore, we found an additional \$3,344

of inappropriate Department purchases resulting in the apparent misappropriation of \$24,711 in Department funds. This amount is substantial when considering that it was 49 percent of the Department's average estimated annual revenue of \$50,600 during our audit period.

Recommendations

The Board should:

7. Strengthen the Department's control environment and develop, adopt and implement written policies and procedures to control and monitor Department operations.
8. Routinely monitor and review the Treasurer's work.
9. Audit and approve all claims prior to payment and ensure that they contain adequate supporting documentation before approving payment.
10. Ensure the Department adheres to the fiscal policy and develop, adopt and implement written policies and procedures to control and monitor the use of Department credit cards.
11. Review the Department's credit card statements on a monthly basis to ensure that purchases are for legitimate Department purposes.
12. At a minimum, annually audit the Department's financial records.

APPENDIX A

RESPONSE FROM DEPARTMENT OFFICIALS

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

Tupper Lake Volunteer Fire Department

PO Box 849

Tupper Lake, New York 12986

Carl Steffen, Department Chief

To: New York State Office of the Comptroller

Date: March 24, 2015

Re: Response / Plan of Corrective Action for department audit

The members and officers of the Tupper Lake Volunteer Fire Department are submitting this document as our response and "Plan of Corrective Action" for the audit of our financial position that was completed by your office.

The members and officers acknowledge the fact that problems existed with the way financial resources of the department were handled in the past. These problems included a lack of segregation of financial duties, not accepting responsibility for protecting the security of our financial resources, not monitoring transactions to detect misuse and or misappropriation of department financial resources, and lack of fulfillment of fiduciary responsibilities. These problems became evident in 2013 when there was a change of officers within the department. It was also noted that there was a potential of criminal culpability in some of the financial transactions completed by an officer of the department.

The actions taken by the department at that time were as follows. The treasurer was suspended by the officers and asked to turn over all financial records and documents. A meeting was held between the Police Chief and the Fire Chief to discuss the possible criminal acts. A meeting was then held with the Village of Tupper Lake Board. The situation was discussed and the village board was brought up to speed. The department then requested that an audit be conducted, by the Office of the Comptroller, of the department funds and activities.

The audit of the department's financial affairs was started by your office. The Fire Chief and the Police Department worked diligently to obtain the documents, receipts, and other financial information as requested by the auditor.

Understanding that there would be a period of time before an audit could be started it was decided to be proactive in making corrections in order to safe guard the department financial resources. First a plan was made to pay off any debts outstanding for the department. Next a study was made of the department bylaws and procedures concerning the financial

responsibilities. During this study it was found that there were several key pieces of policy, procedures, or bylaws that were either missing or were not appropriate to protect the financial resources of the department. Recent public reports on audits of fire departments were researched and a process was started to correct the problems found. As a result a new "Physical Policy" and a department "Code of Conduct" was written. This policy and code of conduct were presented to the fire department board of officers. They were subsequently adopted by a motion and second from the officers, and with a unanimous vote of the board were accepted. This "Physical Policy" and department "Code of Conduct" were then presented and read to the membership at a regular department meeting held in the fall of 2013. A motion and second were received from the membership and were adopted by a unanimous vote of the members present. These documents and their adoption have been made a part of the official minutes of the department.

In the Office of the State Comptroller's Auditor's report there were twelve (12) recommendations made. We have reviewed these recommendations and are in agreement with all of them. Our "Plan of Corrective Action" is to follow our "Physical Policy" and "Code of Conduct" as adopted by the officers and the membership. These two documents answer all of the recommendations set forth by the Auditor.

Finally we would like to state the following. As said prior we acknowledge a problem existed with the handling of the fiduciary responsibilities of the department. We recognized these problems and their results. We took a proactive stance in correcting the problems with policies and procedures. We have trained the current officer's board members on their responsibilities to safe guard the financial resources of the department. We have proceeded to report the findings of the audit to the Police Department for possible criminal action.

In closing we would like to thank the Office of the State Comptroller and their auditors for the effort and work they put into this audit. Their professionalism, thoroughness, and attention to detail were greatly appreciated. We know that with the recommendations and input the auditor has made combined with the policies established, the financial resources of the department will be protected and secure into the future.

Carl Steffen, Chief

Tupper Lake 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 April 1, 2009 through December 31, 2013. To accomplish our objective and to obtain appropriate audit evidence, we performed the following steps:

- We reviewed pertinent documents, such as the Department's bylaws, Board minutes and financial records and reports, from our audit period to establish criteria for our audit and assess the adequacy of the accounting records.
- We interviewed the Department's current and former Chiefs to gain an understanding of Department operations.
- We reviewed all available credit card statements to compile a complete record of transactions.
- We reviewed all bank statements, available canceled check images, available Board minutes and available Treasurer reports. These reports included the amounts available in the bank accounts and raised at various fundraising events and the written reports provided to the Board between April 1, 2009 through March 31, 2013 that stated the total money available, total income and total claims paid on a monthly basis. We used the bank statements and canceled check images to compile a complete record of transactions.
- We reviewed all available supporting documentation for each Department transaction to determine whether the transactions were for valid Department purposes and to estimate the amount of missing funds.
- We reviewed the Treasurer's accounting records and reports to determine if the records were complete, accurate and maintained in a timely manner. We also determined whether the Treasurer performed adequate bank reconciliations and prepared sufficient financial reports, as required by the Department's bylaws.
- We traced all cash receipts received or collected during our audit period from available source documentation to bank statements to determine if all receipts were deposited into Department bank accounts. We also traced all bank account transfers and withdrawals listed on the statements to supporting documentation to verify their propriety.
- We traced all available canceled check images from the Department's checking account (1,180 checks totaling \$274,930) that were cleared by the bank during our audit period from the Department's bank statements to available invoices to determine if there was an indication that all claims were presented to and audited by the Board.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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