



Citizens Hose Company

Board Oversight of Financial Operations

Report of Examination

Period Covered:

January 1, 2013 – December 16, 2014

2015M-157



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Table of Contents

	Page
AUTHORITY LETTER	1
EXECUTIVE SUMMARY	2
INTRODUCTION	5
Background	5
Objective	6
Scope and Methodology	6
Comments of Local Officials and Corrective Action	6
CASH SHORTAGE	7
Cash Disbursements	8
Cash Receipts	9
Credit Cards	12
Claims Auditing	14
Board Oversight	16
Recommendations	19
APPENDIX A Response From Local Officials	21
APPENDIX B Audit Methodology and Standards	23
APPENDIX C How to Obtain Additional Copies of the Report	24
APPENDIX D Local Regional Office Listing	25

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

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Dear Fire Company 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 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 Citizens Hose Company, entitled Board Oversight of Financial Operations. 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 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

Citizens Hose Company (Company) provides fire protection and emergency rescue services for the Village of Shortsville (Village) and Towns of Manchester, Hopewell and Farmington in Ontario County. The Village supports the Company's operations by providing fire equipment, safety gear and a firehouse through the Shortsville Fire Department (Department). The Company is a not-for-profit organization that operates an ambulance service and provides volunteer firefighters for the Department. For 2013, the Company reported net income of \$17,600, which was mainly from ambulance services revenue, a one-time donation of more than \$33,000 and fundraising activities.

Shortly after we began our audit, the Treasurer admitted to Company officials that she had misappropriated two checks totaling \$3,891. During our audit, we found that the Treasurer had misappropriated more than \$20,000 of Company funds, and the Company Secretary inappropriately used a Company credit card for personal purchases of at least \$1,100 without detection by officials.

This matter was referred to the Ontario County District Attorney's Office resulting in the arrest of the Treasurer. In February 2019, the Treasurer pleaded guilty to Grand Larceny in the Third Degree and was ordered to pay full restitution in the amount of \$24,440.71.

Scope and Objective

The objective of our audit was to examine the Company's internal controls over its financial operations for the period January 1, 2013 through December 16, 2014. Our audit addressed the following related question:

- Are Company controls adequate to ensure that financial activity is properly recorded and reported and that Company funds are safeguarded?

Audit Results

We found that the Company did not have adequate controls in place to ensure that Company funds were safeguarded. The Company's bylaws were insufficient because they did not provide detailed guidance for the Treasurer or audit committee when collecting and depositing funds, recording cash receipts and disbursements and paying Company bills. As a result, the Treasurer was able to process disbursements with virtually no oversight. We found that the total shortage during our audit period exceeded \$22,000 (Figure 1).

Figure 1: Shortage Summary

Shortages	Amounts
Check disbursements	\$7,276
Carnival shortage	\$6,071
Check substitutions	\$2,863
Undeposited receipts	\$2,713
Credit card purchases	\$3,298
Shortage Identified	\$22,221

We found that the Treasurer misappropriated \$7,276 in Company funds by writing inappropriate checks to herself and unsupported payments to cash, the Company’s auxiliary and to a close associate.¹ The Treasurer was able to hide these payments from the Company by manipulating the information on the abstracts (list of bills to be paid) that she provided to the audit committee. Because the audit committee did not request supporting documentation for Company bills, it was unaware that the seven payments were fraudulent.

We also found an \$11,647 shortage related to \$6,071 missing from the carnival’s change fund, cash receipts totaling \$2,863 that were not deposited – then substituted with other receipts that went unrecorded – and \$2,713 received for numerous fundraising activities that also were not deposited. Because the Treasurer was solely responsible for handling fundraising and other revenue collections, without any oversight by Company officials, they could not determine whether the Treasurer accurately recorded and deposited all cash collections. In addition, because the Board did not annually audit the Company’s accounting records, the Treasurer was able to manipulate the Company’s accounting records, thereby concealing her misappropriation of cash receipts.

The Treasurer and Company Secretary also used the Company’s credit cards to make \$3,298 worth of inappropriate purchases for gasoline, prescription medications, over-limit credit fees and charges made at a casino. The Board did not establish a credit card policy to provide guidance for members, and the audit committee did not verify the appropriateness of credit card purchases either before or after they were made. Consequently, Company officials would not have been able to determine whether the remaining \$20,902 worth of credit card purchases made during our audit period were legitimate Company expenditures.

Further, we found that Company officials’ insufficient oversight of financial operations contributed to their inability to detect questionable transactions. Shortly after we began our audit, the Treasurer admitted to Company officials that she had misappropriated two checks totaling \$3,891, offered to resign from her position as Treasurer and repay the \$3,891, which she falsely claimed was the total amount taken. Until we notified the Chairman of the additional discrepancies that we found, Company officials’ were under the mistaken impression that the \$3,891 misappropriation constituted the entire universe of the fraud. After we identified additional misappropriated funds, Company officials secured

¹ This individual shared a home address with the Treasurer.

the Treasurer's resignation and repayment of the \$3,891 in stolen Company funds, notified law enforcement of our initial findings and fully cooperated with auditors, investigators and prosecutors throughout the conclusion of this matter.

Comments of Company Officials

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

Introduction

Background

Citizens Hose Company (Company) is located in the Village of Shortsville (Village) in Ontario County. The Village supports the Company's operations by providing fire equipment, safety gear and a firehouse through the Shortsville Fire Department (Department). The Company is a not-for-profit organization that operates an ambulance service and provides volunteer firefighters for the Department. The Company and Department provide fire protection and emergency rescue services for Village residents and portions of the Towns of Manchester, Hopewell and Farmington.

The Company consists of approximately 45 active members and operates under its established bylaws. According to the bylaws, the Board of Directors (Board) is composed of six members who are each elected to three-year terms. The Board is responsible for the general management of the Company's financial and operational affairs. The Treasurer's duties include receiving and depositing all funds, paying bills and maintaining accurate accounting records. All positions are unpaid with the exception of the Treasurer who is paid \$600 annually and the Company and Emergency Medical Service (EMS) Secretaries who are each paid \$500 annually.

The Company elected the Treasurer to her first term starting January 1, 2013. During our audit, the Treasurer admitted to Company officials that she had misappropriated two checks totaling \$3,891 then tendered her resignation as Treasurer on August 20, 2014. Company officials asked the former Treasurer to resign as a Company member after we notified them of the greater scope of her misappropriations. Similarly, the Company Secretary resigned from her position on October 28, 2014 after we notified officials of her misappropriation of Company funds. The Board then appointed the Assistant Treasurer as the Company's Treasurer.²

According to the Company's unaudited financial statements, as of December 31, 2013, the Company reported a net income of \$17,600, which was mainly from ambulance services revenue, a one-time donation of more than \$33,000 and fundraising activities.

We referred the matters presented in this report to our Division of Investigations.

² For the purposes of this report, "Treasurer" refers to the former Treasurer and "Secretary" refers to the former Secretary, unless indicated otherwise.

Objective

The objective of our audit was to examine the Company's internal controls over its financial operations. Our audit addressed the following related question:

- Are Company controls adequate to ensure that financial activity is properly recorded and reported and that Company funds are safeguarded?

Scope and Methodology

We examined the Company's internal controls over its financial operations for the period January 1, 2013 through December 16, 2014.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Company officials, and their comments, which appear in Appendix A, have been considered in preparing this report.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review.

Cash Shortage

The Board is responsible for protecting the Company from loss by developing and implementing a system of internal controls that provides reasonable assurance that Company resources are adequately safeguarded and all financial activities are accounted for properly. Effective internal controls include segregating financial duties; establishing adequate policies and procedures for handling cash receipts, issuing disbursements, using credit cards and processing claims; ensuring compliance with policies and procedures; and providing oversight of operations.

We found that the Company did not have adequate controls in place to ensure that Company funds were safeguarded. The Board did not segregate the Treasurer's incompatible financial duties. Also, the Board did not implement sufficient compensating controls for the Treasurer's incompatible duties, such as auditing the Treasurer's records and reviewing bank reconciliations. As a result, the Treasurer was able to misappropriate more than \$20,000 from January 2013 through August 2014 without detection by Company officials.

In addition, the Secretary inappropriately used a Company credit card for personal purchases of at least \$1,100. Company officials also did not discover this misappropriation because they did not have adequate controls over credit card purchases. We found that the total shortage during our audit period exceeded \$22,000³ (Figure 2).

Figure 2: Shortage Summary

Shortages	Amounts
Check disbursements	\$7,276
Carnival shortage	\$6,071
Check substitutions	\$2,863
Undeposited receipts	\$2,713
Credit card purchases	\$3,298
Shortage Identified	\$22,221

³ Because the Company was missing numerous records and documents, especially related to carnival revenues and credit card usage, we believe that this amount is likely understated.

Cash Disbursements

A good system of internal controls over cash disbursements ensures that payments are for valid Company purposes, adequately supported by an invoice or receipt, approved by the governing body prior to payment and properly recorded. These controls should be detailed in the Company's bylaws or supplemental policies so that those who disburse Company funds will know exactly what is expected of them. Bank reconciliations provide an important independent record of all Company disbursements. The Board should review bank statements, reconciliations and cancelled checks in a timely manner to ensure that they agree with the preapproved list of bills to be paid (abstracts).

The Company's bylaws state that the Treasurer "shall receive all monies due to the Company, pay all bills against the Company; keep an accurate account of receipts and disbursements; and deposit all monies received by him or her belonging to the Company in a bank or banks designated by the Board of Directors." In addition, the bylaws state, "No money shall be withdrawn from any bank unless authorized at a regular, annual or special meeting." The Board appointed a three-member audit committee to review all Company bills prior to payment.

We found that the Board did not establish sufficiently detailed financial policies to safeguard Company assets. Additionally, the bylaws did not provide detailed guidance regarding the Treasurer or audit committee's responsibilities with respect to collecting and depositing funds, recording cash receipts and disbursements and paying Company bills. As a result, the Treasurer did not provide, and the audit committee did not request, abstracts with supporting documentation, such as invoices or receipts for each claim. In addition, the Board did not require the Treasurer to provide it with bank statements and reconciliations or copies of cancelled checks for review. Therefore, the Treasurer was able to process cash disbursements with virtually no oversight.

We reviewed all 457 checks totaling \$253,148 that cleared the bank during the Treasurer's 19-month tenure⁴ to determine whether they agreed to the accounting records. We found that the Treasurer misappropriated \$7,276 in Company funds by writing seven inappropriate checks. The Treasurer wrote two checks to herself⁵ (\$1,385), two unsupported payments to cash (\$800), one check to the Company's auxiliary⁶ (\$1,200) and two checks to a close associate⁷

⁴ January 2013 through July 2014

⁵ The two checks written to herself do not include her semi-annual pay which she wrote to herself and signed.

⁶ The Treasurer also served as the auxiliary's treasurer.

⁷ This individual shared a home address with the Treasurer.

(\$3,891). While the auxiliary was not part of our audit scope, it provided us with records to show that the Treasurer transferred the \$1,200 from the Company then used a debit card to withdraw the money from the auxiliary account. Our audit scope did not include determining whether additional auxiliary moneys were missing.

The Treasurer was able to hide these payments from the Company by manipulating the information on the abstracts provided to the audit committee. Although the Treasurer provided the audit committee with abstracts titled “Bills to Be Paid,” in almost all instances – and unbeknownst to the audit committee – the bills listed had already been paid. Also, because the audit committee did not request supporting documentation for Company bills, it was unaware that the seven payments were fraudulent. The Treasurer did not provide the audit committee with any invoices, bills or receipts for the claims listed on the abstracts that would have allowed committee members to examine the payments to ensure they were legitimate Company expenditures.⁸

Without a meaningful audit of claims and review of Company bank records, Company officials were unable to prevent or detect these misappropriations. Shortly after the Treasurer’s resignation, she repaid the Company \$3,891 for the two Company checks she wrongfully remitted to her close associate.

Cash Receipts

The Company’s bylaws should contain detailed accounting procedures to help ensure that funds collected are properly recorded, supported and deposited. At a minimum, the bylaws should indicate who should collect and deposit funds and describe the cash receipt records to be maintained, type of supplemental activity reports to be prepared⁹ and nature of the oversight that the Board should provide for the Company’s cash receipts.

We found that Company officials did not establish adequate internal controls over the cash receipts process. Although the bylaws indicated that the Treasurer should collect and deposit funds, they did not include the specific records that should be maintained, supplemental activity reports that should be prepared or the type of oversight that the Board should provide for the Company’s cash receipt function. Although the Treasurer performed nearly all of the Company’s financial activities, the Board did not implement adequate compensating controls, such as routinely reviewing and monitoring the Treasurer’s work.

⁸ Refer to the Claims Auditing section for further information.

⁹ Such as monthly receipts, bank reconciliations, credit card purchase detail, gasoline purchase detail, journal entry reports and credit card statements

We examined all deposits and transfers into the main checking account totaling \$290,397 from January 1, 2013 through July 10, 2014 to determine whether the Treasurer had appropriately recorded all identified receipts. We found multiple discrepancies with the cash receipts process, including receipt substitutions and those that were not deposited intact,¹⁰ which resulted in Company funds totaling \$11,647 being unaccounted for (Figure 3).

Type of Shortage	Amount
Carnival shortage	\$6,071
Check substitutions	\$2,863
Undeposited receipts	\$2,713
Total Deposit Shortage	\$11,647

Carnival Shortage – The Company holds several fundraisers during the year including an annual carnival. Due to the nature of this fundraiser, receipts are almost exclusively cash, which can exceed \$50,000 during the three-day event. We found that the Company’s controls over the carnival’s cash receipts were inadequate.

Cash was not counted and recorded prior to leaving carnival booth cash drawers. In addition, although numbered tickets were used for sales including drinks, raffles and food, no one compared starting and ending ticket numbers to the amount of cash collected to determine the totals that should have been collected. As a result, Company officials cannot determine whether all collections were properly recorded because they allowed the Treasurer to count, record and deposit all cash receipts without independent verification. Consequently, the shortage we identified also is limited to unverified collections recorded by the Treasurer. From those records, we found a \$6,071 shortage related to the Company’s 2013 and 2014 carnival fundraisers. Due to the Company’s poor controls, the actual shortage could be significantly larger than we could verify.

In 2013, the Treasurer withdrew \$6,000 from the bank for the carnival’s change fund, but deposited only \$4,670 into the change fund account after the event, leaving a difference of \$1,330. In addition, the Treasurer adjusted the accounting records to reduce cash by \$935 with an unsupported explanation of “counted wrong.”

¹⁰ An intact deposit is one in which all cash receipts collected are deposited in the same amount and form (i.e., cash and checks) as they were collected.

In 2014, the Treasurer also withdrew \$6,000 from the bank for the carnival's change fund. However, for this carnival, the Treasurer prepared a detailed spreadsheet indicating daily usage of the change fund. From this documentation, we determined there was a shortage of \$3,806, because the Treasurer deposited only \$1,094 instead of \$4,900 that was required to replenish the change fund.¹¹

Because the Treasurer independently counted, recorded and deposited all carnival proceeds without sufficient oversight, Company officials cannot determine whether the Treasurer accurately recorded and deposited all cash collections. Also, Company officials cannot verify whether the Treasurer accurately recorded and reported carnival revenues and activities, including change fund replenishment. In addition, because the Board did not provide adequate oversight of the Treasurer's work or annually audit the Company's accounting records, it did not have the opportunity to review the \$935 adjustment to determine whether it was appropriate.

Check Substitutions – A substitution occurs when an individual records a cash receipt in the accounting records but uses a different cash receipt, in place of the original receipt, when depositing the amount in the bank, leaving the second cash receipt unrecorded in the accounting records. Substituting allows recorded receipts to agree with the bank deposits, even though cash payments were taken from the original deposit. However, when reviewing the supporting detail of the deposit composition it is evident that the amount of cash included in the deposit would no longer agree with the amount recorded on the receipts.

We obtained deposit compositions from the Company's bank for deposits made during our audit period and compared them to the Treasurer's records. We found 13 items totaling \$2,863 recorded mostly as fundraising receipts that were actually revenue from other sources, such as checks from insurance companies to cover ambulance transportation. Because the Board did not provide oversight of the Treasurer's work or annually audit the Company's accounting records, it was unaware that the Treasurer had not properly recorded all receipts, which gave her the opportunity to use them in place of other receipts.

Missing Deposits – The Treasurer maintained custody of all Company funds, including daily receipts and fundraising revenues, until she made the bank deposits. In addition, the Treasurer controlled the Company's accounting records without any oversight by the Board.

¹¹ During the 2014 carnival, Company officials paid some expenditures using change fund moneys. Receipts were available to indicate those amounts.

During our review of the Treasurer's accounting records, we found that the Treasurer did not deposit revenues totaling \$2,713 for numerous fundraising activities that were generally received in cash. For one fundraising event, there was no indication in the accounting records or reports to the Board of any revenue received or deposited. For nine fundraising events, we found that the amount of the deposits were \$2,413 less than the \$6,234 that the Treasurer reported to the Board as having been collected.

Because the Company did not have adequate controls over fundraising cash receipts, it did not have any independent records¹² to support the legitimacy of the fundraising revenues recorded by the Treasurer in the Company's accounting records. Due to the variable nature of fundraising and cash donations – and the inherent risk of failure to record and/or properly deposit cash collected – we independently obtained and analyzed relevant bank records against all available Board minutes and Company records. Further, we discussed known collections with Company members and determined there existed substantial evidence that the Treasurer failed to record and/or deposit Company cash receipts.

Credit Cards

The Board should adopt a sound credit card policy. It is important that the policy identify the individuals who are authorized to use the credit cards, describe the types of purchases allowed, stipulate the documentation required to support the purchases and address the methods to recover moneys from improper use of the credit cards. Without policies to direct credit card usage and oversight to ensure compliance, the Board cannot determine whether unauthorized or inappropriate purchases have been made.

The Company provides credit cards for seven members,¹³ but does not have a credit card policy to provide guidance for members when using them. In addition, the audit committee did not verify the appropriateness of credit card charges made during our audit period.¹⁴ During this time, Company officials and staff made \$24,200 worth of credit card purchases. We reviewed the purchases made by the Treasurer and Secretary totaling \$15,124 and scanned all other credit purchases totaling \$9,076 made by Company officials.¹⁵

¹² Such as totals recorded by someone other than the Treasurer for cash collections at carnival booths

¹³ Treasurer, Secretary, Vice President/EMS Captain, Fire Captain, Fire Chief and Board Chairman. One of the credit cards was not being used during our audit period.

¹⁴ See supra, note 8.

¹⁵ Refer to Appendix B for further information on our sample selection.

The audit committee did not preapprove credit card purchases. Also, the Treasurer did not provide the committee with statements with attached receipts after the purchases were made, so that the committee could review and approve the purchases at the same time.

We independently obtained and analyzed numerous records directly associated with use of Company-issued credit cards and found that the Treasurer and Secretary made at least \$3,298 worth of inappropriate credit card purchases. Because the audit committee did not preapprove, or sufficiently review and approve, the remaining \$20,902 credit card purchases, Company officials cannot ensure that they were legitimate Company expenditures. In addition to the purchases we identified as inappropriate, there were a portion of the remaining credit card purchases of which we were unable to definitively determine whether they were legitimate due to the condition of Company records and Company past practices (Figure 4).

Figure 4: Inappropriate and Questionable Credit Card Charges

	Individual Statements Reviewed	Average Charges Per Month	Known Inappropriate Amounts	Questionable Amounts	Total Charges
Treasurer	16	\$536	\$2,176	\$6,395	\$8,571
Secretary	21	\$312	\$1,122	\$5,431	\$6,553
Other Credit Card Purchases ^a	61	\$149 ^b	\$0	\$9,076	\$9,076
Total	98	\$997	\$3,298	\$20,902	\$24,200

^a These purchases were made by the Company's Vice President/EMS Captain, Fire Captain, Fire Chief and Board Chairman.

^b This average represents charges made per person per month.

Treasurer – We reviewed the Treasurer’s credit card statements from April 2013 through August 2014 and found that the Treasurer made \$8,571 in credit card purchases using the Company credit card, which was an average of \$536 per month.

We found that \$2,176 worth of purchases were inappropriate. These included charges made at a casino (\$840), purchases for gasoline (\$313) and bank fees for exceeding credit card limits (\$117). We deemed the remaining \$6,395 charges as questionable because either the audit committee did not verify the appropriateness of the charges prior to purchase or Company officials could not locate receipts for them.

Secretary – We reviewed the Secretary’s credit card statements from January 2013 through September 2014 and found that the Secretary

made \$6,553 in credit card purchases using the Company credit card, which was an average of \$312 per month.

We found that \$1,122 worth of purchases for gasoline and prescription copayments were inappropriate. For the remaining \$5,431 in charges, Company officials could not locate receipts for \$3,800 in purchases. In addition, because the audit committee did not verify the appropriateness of credit card charges prior to purchase, we deemed both receipted and unreceipted purchases as questionable.

Other Credit Card Purchases – We scanned through the statements for the four other Company credit cards that represented approximately 15 months of activity and charges totaling \$9,076, an average of \$149 per person per month. While we have no assurance that the purchases were appropriate, we did not notice excessive charges to gas stations or other businesses that raised red flags. However, because the audit committee did not verify the appropriateness of credit card charges, we deemed these purchases as questionable.

Without a policy to direct allowable usage, require adequate supporting documentation and provide guidance to aid the audit committee's review and approval of credit card purchases, the Board has no assurance as to whether credit card purchases are appropriate Company expenditures. As a result, we found that Company officials made credit card purchases totaling more than \$24,000 without proper oversight.

Claims Auditing

Conducting a proper audit of claims prior to payment is an integral part of any internal control system for cash disbursement. The Company's bylaws should provide guidance to the audit committee on properly auditing claims, including the requirement that all claims must have proper supporting documentation that includes a claims voucher or form¹⁶ and original receipt or invoice for the goods or services purchased. Also, the bylaws should require the Treasurer to include payee names, dollar amounts for individual claims and a description of the purchases for all claims listed on the abstracts. In addition, the bylaws should require the Treasurer to list all claims on the abstracts and the audit committee to sign abstracts after reviewing and approving the claims to certify to the Treasurer that payments for the claims have been approved. Though detailed guidance was not included, the bylaws required the Treasurer to pay claims after authorization at a Board meeting.

¹⁶ A claim voucher or form describes the purchase, cost and the individuals who requested and authorized the purchase. This information provides the audit committee with important information to compare to purchase orders, if required, and receipts, if provided separately.

We found that the audit committee was reviewing abstracts provided by the Treasurer each month, but the Treasurer did not provide the actual claims or any supporting documentation for the committee to review. In addition, the Treasurer did not itemize credit card purchases on the abstracts or provide the audit committee with credit card statements for review. Though we found some receipts mixed in among the Treasurer's files, the mere existence of a receipt would not have been sufficient for the committee to verify the appropriateness of the purchases listed on the abstracts. Had the Treasurer been required to use claim vouchers or forms, the audit committee would have had the opportunity to match the invoices and receipts to the purchase documentation indicated on the claims vouchers and abstracts.

An audit committee member told us that the committee occasionally questioned items listed on the abstracts and could request to review receipts if desired. However, without claims vouchers, supporting documentation and comprehensive information provided on the abstracts, committee members often relied on the Treasurer's explanations or their recollection of Company purchases to determine whether the claims were legitimate Company expenditures. This is especially troubling because the Treasurer could manipulate the abstracts and Company records without the knowledge of or detection by Company officials.

We reviewed 457 cancelled check images¹⁷ totaling \$101,612. Of this amount, we compared check images to abstracts for 317¹⁸ and found that 180 (57 percent) were included on abstracts that were signed by at least one audit committee member, 117 (37 percent) were listed on unsigned abstracts and 20 (6 percent) were not listed on any abstract. At the time the audit committee was reviewing the abstracts, the Treasurer had already paid the claims.

We also compared the cleared check images to the Treasurer's records and found discrepancies for 15 checks. For seven, the payee listed on the cancelled checks was different from the payee listed in the Treasurer's records. The Treasurer also recorded six payments in the records that never cleared the bank and recorded two checks as being voided that had cleared the bank. In addition, we found that the Treasurer did not record eight checks listed on the abstracts in her records.

¹⁷ The Company was not receiving canceled check images from the bank. At our request, Company officials requested the images for our audit period and informed the bank that they would like to receive images with monthly bank statements in the future.

¹⁸ We identified 140 checks that were written at the beginning and end of the Treasurer's tenure that were not listed on any abstracts. We did not include these checks in our examination. Refer to Appendix B for further information on our sample selection.

Company officials and staff also made credit card purchases without obtaining preapproval from the Board and Company membership. Though the Treasurer told us that receipts were required for all credit card purchases, she did not provide the audit committee with receipts for these purchases, and she could not locate receipts for numerous credit card purchases.¹⁹ Therefore, Company officials did not verify whether credit card purchases were appropriate before or after purchase.

In addition, the Treasurer paid the Company's credit card bills through electronic transfers. We reviewed 14 months of electronic transfers and found that the Treasurer did not include nine months of transfers for credit card payments on her reports to the Board. Without supporting documentation for credit card purchases, such as receipts, invoices and credit card statements, Company officials cannot determine whether these purchases were legitimate Company expenditures.

Because the Board did not ensure that the bylaws provided adequate guidance to the audit committee on properly auditing claims or require the Treasurer to provide the committee with supporting documentation for all claims, the Treasurer was able to write seven inappropriate checks totaling \$7,276²⁰ and the Treasurer and Secretary were able to make inappropriate credit card purchases totaling \$3,298²¹ without detection.

Board Oversight

The Board is responsible for establishing policies and procedures to help ensure cash is properly safeguarded, transactions are authorized and properly recorded and financial reports are accurate and reliable. The Board must segregate incompatible financial duties to avoid having one individual control all aspects of financial transactions. If this is impractical, the Board should provide adequate oversight of the individual's work, such as reviewing bank reconciliations and accounting software audit trails,²² requiring Board approval for any computer-based modifications to the accounting records and annually auditing the Company's records.

Additionally, the Board is responsible for overseeing the Company's purchasing and claims auditing functions to ensure

¹⁹ Refer to the Credit Cards section for further information.

²⁰ Refer to the Cash Disbursements section for further information.

²¹ See supra, note 19.

²² An audit trail shows all changes made within a financial software program and is a source for identifying discrepancies within computer-based accounting records.

that all claims are proper and include supporting documentation. If the Board chooses to appoint an audit committee to audit Company bills and claims, it must provide detailed guidance to the committee on properly auditing claims.

The Board did not provide adequate oversight of the Company's financial operations. Although the Treasurer performed virtually every aspect of the Company's financial business, the Board did not implement adequate compensating controls. The Board did not establish sufficient written policies or procedures to provide guidance for Company officials in performing financial duties, provide adequate oversight of the Treasurer's work, comply with Company bylaws by ensuring that all claims were audited prior to being paid, ensure that its audit committee properly audited claims or annually audit the Treasurer's financial records.

Segregation of Duties – The Treasurer receives money, prepares and makes deposits, records receipts and disbursements in the financial software program and signs checks. The Treasurer performed all of these incompatible financial duties without any Board oversight. Although the Treasurer told us that she reconciles the bank statements each month, she does not retain evidence of the reconciliations, and the Board and audit committee did not request to review the reconciliations.

Also, the Board and audit committee did not request to review the bank statements or cancelled checks. Had the Board or audit committee routinely requested to review these documents and compared them to the previous months' abstracts, they would have identified the seven inappropriate checks written by the Treasurer.²³

Accounting Records and Reports – The Board did not adequately review the Treasurer's records to ensure their accuracy. For example, although the Company's financial software could run an audit trail, the Board did not periodically initiate this function and print the report, so that it could review any changes made.

As a result, the Board was unaware that the Treasurer made numerous adjustments to the accounting records, including adjusting deposit amounts and changing the names of payees on recorded checks. For example, in the accounting records, the Treasurer reduced a \$3,383 deposit made in November 2013 by \$300, and in January 2014 changed the payee name for a \$2,165 check from Finger Lakes Ambulance to a close associate.²⁴ As a result, the Treasurer could

²³ See supra, note 8.

²⁴ See supra, note 20.

misappropriate Company funds and adjust the accounting records to conceal inappropriate transactions.

Annual Audit – An annual audit helps the Board fulfill its fiscal oversight responsibilities by providing Company officials with an opportunity to assess the reliability of the Company’s books, records and supporting documents. Audit results also can help the Board to evaluate the performance of those who have been entrusted with recordkeeping and other financial responsibilities.

The Board did not perform an annual audit of the Company’s records and reports. As a result, it was unaware that the Treasurer was hiding fraudulent payments from the audit committee. The Treasurer was able to hide these payments, in part, by manipulating the information on the abstracts provided to the audit committee. We found that the Treasurer’s reports provided to the Board and audit committee were incomplete and inaccurate, and the Treasurer used them to conceal fraud.

Had the Board conducted a sufficient annual audit, it would have identified the same discrepancies that we found between the canceled checks, Treasurer’s abstracts and other reports, thus identifying the fraudulent transactions in a timely manner.

Company Bylaws – To carry out its responsibilities, the Board must establish a strong control environment. Having a good control environment helps ensure that Company officials and staff comply with the Company’s bylaws, code of ethics and policies and procedures. The Board should adopt a code of ethics that sets forth guidance for Company officers and members regarding expected standards of conduct. Also, the Company’s bylaws should indicate how officials should address suspected or discovered fraud of Company assets. The bylaws should indicate to whom or what the fraud should be reported, reporting time frames and what information and records should be maintained regarding the fraud.

The Company’s bylaws do not contain a code of ethics to provide standards of conduct. They also do not contain any controls indicating required action that officials must take when fraud against the Company is suspected or discovered. As a result, Company officials do not have any guidance during such an event.

We referred our findings to the Ontario County District Attorney’s Office resulting in the arrest of the Treasurer. In February 2019, the Treasurer pleaded guilty to Grand Larceny in the Third Degree and was ordered to pay full restitution in the amount of \$24,440.71.

Recommendations

The Board should:

1. Review and revise the Company's bylaws and adopt a code of ethics and written policies and procedures to provide detailed guidance for Company officials and staff on all financial operations, including cash disbursements, cash receipts, purchasing, credit card usage and claims auditing. The Board also should update the Company's bylaws to provide guidance on steps to take if a fraud is discovered or suspected.
2. Ensure that the Treasurer provides the audit committee with accurate detailed abstracts, vouchers and supporting documentation for each voucher.
3. Periodically review bank statements, bank reconciliations, canceled check images, invoices, receipts and the Treasurer's reports and accounting records.
4. Ensure that all claims are properly audited prior to payment.
5. Adopt and enforce procedures to ensure that cash is properly accounted for during and after fundraising events.
6. Segregate the incompatible financial duties of all individuals who collect, maintain custody, disburse and deposit cash receipts. In cases where this is impractical, the Board should implement compensating controls that include:
 - a. Regularly reviewing financial records and reports for completeness and accuracy. These reviews should be more frequent than the annual audits of the Treasurer's records.
 - b. Periodically reviewing the accounting system's audit trail reports for changes and discrepancies, such as voided or altered receipts, disbursements or vendor and payee information.
7. Ensure that the Treasurer deposits all cash receipts in a timely manner.
8. Periodically review credit card purchases to ensure appropriate usage and compliance with the credit card policy.
9. Annually audit the records and reports of all Company members who are involved in the collection, recording, reporting and custody of Company funds and ensure that the audit results are recorded in the Company minutes.

The Treasurer should:

10. Submit detailed accurate abstracts, claim vouchers and supporting documentation, such as invoices and receipts, for all claims to the audit committee monthly.
11. Pay claims only after they have been audited and approved.
12. Provide the Board with monthly bank statements and reconciliations, including copies of cancelled checks.
13. Deposit all cash receipts intact and in a timely manner.
14. Ensure credit card purchases comply with credit card policy.
15. Prepare and retain documentation of monthly bank reconciliations.
16. Ensure that all adjustments to the accounting records, such as voided transactions or adjusted payee information, have documented authorization from the Board.
17. Submit all financial records and reports to the Board annually for audit.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The Local Officials' response to this audit can be found on the following page.



CITIZENS HOSE COMPANY

5 Sheldon Street
Shortsville, New York 14548

August 24, 2020

Edwin V. Grant Jr
Chief Examiner
Division of Local Government and School Accountability
Office of the State Comptroller
110 State Street
Albany, NY 12236

To Whom It May Concern,

Thank you for your report of July 3, 2020. We appreciate the assistance of your office and team to uncover the financial irregularities of the former Treasurer and Secretary which we were not aware of. We worked very closely with the late Duane Fischer, CPA who helped us to adopt stringent financial controls in response to this incident. We have reviewed the findings of your report and we agree in all respects. Corrective actions have been taken to prevent anything like this from recurring.

Respectfully submitted,

Jason Wagner
Fire Chief

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine internal controls over the Company's financial operations for the period January 1, 2013 to December 16, 2014. To accomplish our audit objective and obtain valid audit evidence, and to complete additional fraud testing, we performed the following steps:

- We reviewed pertinent documents such as the Company's bylaws, meeting minutes and financial records and reports.
- We traced meeting minutes pertaining to financial transactions to the accounting records and verified compliance with bylaws related to financial operations.
- We reviewed credit card statements for appropriateness of purchases made. All purchases were made during our audit period. We reviewed the Treasurer's purchases made from April 2013 through August 2014, the Secretary's purchases made from January 2013 through September 2014 and the purchases made with four other credit cards from February 2013 through September 2014.
- We met with Company officials and other staff to discuss established controls over financial operations.
- We reviewed financial records and reports found on site, including monthly reports to the Board and carnival records.
- We reviewed bank statements, deposit compositions, cancelled checks and electronic transfers for our entire audit period. We compared banking information to recorded financial activity, available Company records, Board minutes and staff assertions.
- We reviewed 457 cancelled check images totaling \$101,612. Of this amount, we compared check images to abstracts and the Treasurer's records for 317 checks. The remaining 140 checks were written at the beginning of the Treasurer's tenure (January 1, 2013 through April 9, 2013) and end of her tenure (June 13, 2014 through July 30, 2014) and were not listed on any abstracts. We did not include these checks in our examination to provide a more accurate picture of typical Company operations.

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