



Oakfield Fire Department

Apparent Misuse of Funds

Report of Examination

Period Covered:

January 1, 2012 – March 25, 2014

2014M-187



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2015

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 observance 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 Oakfield Fire Department, entitled Apparent Misuse of Funds. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for fire department officials to use in effectively managing operations and in meeting the expectations of the public. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Oakfield Fire Department (Department) is located in the Village of Oakfield (Village) in Genesee County. The Department provides fire protection services to Village residents. The Department is governed by the Board of Directors (Board) which is comprised of eleven members, including the Board President (President). The Board is responsible for the general management and control of the Department's finances. Annually, the members elect a Treasurer. The Treasurer, under the supervision of the Board, is responsible for receiving and disbursing funds, maintaining accounting records and preparing financial reports. The bylaws allow for a financial secretary to assist the Treasurer in her duties.¹ The Department's expenses for the 2013 fiscal year totaled approximately \$56,500.²

The Department maintains two bank accounts. One account is for general operating activities and the other is for deposits and disbursements related to the concession stand at the baseball field next to the fire hall. The Treasurer has custody of the bank cards that were issued for the two accounts.

Our Division of Investigations has referred this report to the Genesee County District Attorney.

Objective

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

- Are Department controls adequate to help ensure that financial activity is properly recorded and reported and that Department money is safeguarded?

Scope and Methodology

We examined the Department's financial operations for the period of January 1, 2012 through March 25, 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 is included in Appendix B of this report.

¹ The Department had not appointed a financial secretary during the scope of our audit.

² Department expenses included fire hall utilities and maintenance (\$29,000), insurance (\$14,800), member activities (\$5,600) and concession stand supplies (\$7,100).

**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 findings and recommendations and indicated they plan to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days. 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 Department to make this plan available for public review.

Apparent Misuse of Funds

The Board is responsible for overseeing the Department’s financial operations and safeguarding its resources. To fulfill this duty, it is essential that the Board establish a system of internal controls to ensure that transactions are authorized and properly recorded and that financial reports are accurate and filed in a timely manner. The Board should review monthly bank reconciliations prepared by the Treasurer and bank statements and canceled checks to ensure that the Treasurer has properly recorded all transactions and that book balances agree with cash on hand and in the bank. The Board is also responsible for performing a thorough audit before the claims are paid by the Treasurer, to help ensure that the Department’s funds are used for only legitimate expenses.

The Board failed to establish adequate internal controls or provide oversight of the Department’s financial operations. This resulted in the apparent misuse of funds and unaccounted for raffle proceeds totaling over \$20,600. We reviewed all 408 Department disbursements, totaling \$135,326 made from January 1, 2012 through March 25, 2014 and found unsupported disbursements and withdrawals totaling \$16,281. The unsupported disbursements included electronic funds transfers (EFT) for utility payments (\$5,944), direct debits using the Department’s bank card (\$4,052), automatic teller machine (ATM) cash withdrawals (\$4,245) and check disbursements to the Treasurer and cash (\$2,040). In addition, over \$4,300 of proceeds from the sale of raffle tickets in 2012 are unaccounted for.

Figure 1: Apparent Misuse of Funds and Questionable Transactions	
Description	Amount
Misused Funds	
EFT Utility Payments	\$5,944
Direct Debits Using Bank Card	\$4,052
ATM Cash Withdrawals	\$4,245
Check and Cash Disbursements	\$2,040
Subtotal	\$16,281
Questionable Transactions	
Proceeds from Raffle Ticket Sales Subtotal	\$4,340
Total Misused Funds and Questionable Transactions	\$20,621

This occurred because the Board did not properly supervise the Treasurer's activities. The Treasurer did not prepare monthly bank reconciliations and the Board did not review bank statements and canceled checks to ensure that the Treasurer had properly recorded all transactions and reconciled cash balances. In addition, the Board's audit of claims was ineffective. The Board approves the payment of claims based upon a summary of payments report provided by the Treasurer. The summary of payments report prepared by the Treasurer did not always include all payments made from Department accounts. Finally, the Board did not conduct an annual audit of the Treasurer's books and records.

Utility Payments – We found 18 utility payments totaling \$5,944 that were not supported by any invoices or documentation. These payments were made directly from Department bank accounts by EFT to a natural gas provider (four payments totaling \$1,036), an electric company (six payments totaling \$2,533) and a cellular telephone service provider (eight payments totaling \$2,375).³ None of these payments were listed on the summary of payments report the Treasurer periodically provides to the Board. Department officials told us they do not provide any member with a cell phone nor did they authorize reimbursements for any member's personal cell phone service.

Direct Debits – We found 36 direct debits totaling \$5,030 that were made using the Department bank card that were not supported by any invoices or other documentation.⁴ Of this amount, we identified questionable transactions totaling \$4,052, as indicated:

- Thirty-four direct debits totaling \$4,828 represented purchases made at various local retailers. Three retailers subsequently provided us with copies of sales receipts totaling \$3,775 for 20 purchases;⁵ another three retailers provided the Board President with six sales receipts, and one receipt for a credit, totaling \$400. We discussed these purchases, which totaled \$4,175, with the President. Based on the President's review of these receipts, he indicated that purchases totaling \$3,197 were unrelated to Department activities. The Department has

³ The recurring monthly payments for electric, natural gas and telephone service at the Department's facilities were supported by adequately itemized invoices that indicated usage, the amount due and the amount previously paid by check.

⁴ Only one of the 36 transactions, for \$100, was included on the summary of payments report prepared by the Treasurer and provided to the Board.

⁵ Five of these receipts also indicated that the card user received cash back totaling \$320.

not provided us with receipts for \$653 of direct debits made at various local retailers.

- Two direct debits totaling \$202 included a \$72 charge at a gas station and a \$130 charge to a cash loan company specializing in payday loans.

ATM Withdrawals – We found 14 ATM cash withdrawals totaling \$4,245 posted to the Department’s general bank account that did not have support indicating why they were made. These cash withdrawals were not included on the summary of payments report and were not referenced in the Board minutes.

Figure 2: ATM Withdrawals

Date	Bank Location	Department Bank Account	Amount
4/30/2012	Batavia	General	\$160
1/10/2013	Oakfield	General	\$120
1/12/2013	Oakfield	General	\$100
1/18/2013	Oakfield	General	\$200
1/29/2013	Oakfield	General	\$360
1/30/2013	Batavia	General	\$400
2/20/2013	Oakfield	General	\$400
2/28/2013	Medina	General	\$105
11/16/2013	Oakfield	General	\$400
11/20/2013	Oakfield	General	\$400
11/24/2013	Oakfield	General	\$400
11/29/2013	Batavia	General	\$400
12/22/2013	Oakfield	General	\$400
12/23/2013	Batavia	General	\$400
Total			\$4,245

Payments to the Treasurer – The Department’s bylaws set the Treasurer’s pay at \$80 annually. The Treasurer also stated that she is paid \$95 each month for janitorial duties at the fire hall. Furthermore, when events are held at the fire hall, she indicated that she and/or her husband are compensated an additional \$95 for cleaning up after each event.⁶

Between January 1, 2012 and March 25, 2014 the Treasurer wrote checks totaling \$6,285 to herself, her husband or cash.⁷ Disbursement records show that the payments for the audit period represented the Treasurer’s annual compensation (\$160), her monthly janitorial duties at the fire hall (\$2,470) and additional event cleaning (\$1,615). However, there was no documentation to support \$2,040 the Treasurer paid to herself, as indicated in Figure 3:

Figure 3: Payments to the Treasurer

Check Date	Payee	Account	Amount	Less: Monthly Janitor Fee	Less: Event Cleanings	Unsupported Amount
July 2, 2012	Treasurer	General	\$760	\$95	\$285	\$380
September 30, 2012	Treasurer	General	\$1,045	\$285 ^a		\$760
November 13, 2012	Cash	General	\$900			\$900
Totals			\$2,705	\$380	\$285	\$2,040

^a Three months at \$95 per month

These payments were not included on the summary of payments reports that the Treasurer provided to the Board.

Raffle Proceeds – The Department held a Mother’s Day Household Giveaway on May 12, 2012. The minutes for March 3, 2012 indicated that tickets for this event were \$20. The minutes also indicated that “the [Treasurer] will be running her raffle on the side, this raffle will be for 2 items a [mobile device] and \$500 cash.” The minutes did not indicate the pricing of tickets for the Treasurer’s raffle. Department officials did not maintain detailed records showing cash collected or tickets sold for either raffle. The only records the President provided to us were the winning tickets for the Treasurer’s raffle. These tickets were imprinted with the numbers of 33 and 242.

⁶ There was nothing in the Board minutes or bylaws establishing rates for the use of the fire hall, and there are no consistent records of when or who rented the hall, whether payments were charged or received and whether other services were provided (food, beverages, etc.). Additionally, the Department does not maintain records of dates the hall was used for events.

⁷ One check the Treasurer drew on the Department’s account was payable to cash for \$900 but was endorsed by the Treasurer. The memo line on the check said “supplies.” Nineteen checks totaling \$4,245 were written to the Treasurer and five totaling \$1,140 were written to her husband.

Due to the Department's failure to maintain records for either raffle, it is unclear if they used the same ticket sequence for both raffles. However, if ticket number 242 was the final ticket sold, at \$20 a ticket, the Department should have had a minimum of \$4,840 in proceeds from the ticket sales. The President indicated that the \$500 cash prize may have been disbursed in cash from the raffle proceeds. Therefore, approximately \$4,340 should have been deposited to the bank. We reviewed bank statements and copies of checks payable to the Department and noted that in April and May 2012 there were three deposits totaling \$1,550 into the general checking account. We found no evidence that any of the deposits included proceeds from the raffle or any further discussion of the raffle results in the Board minutes.

The Board's failure to establish adequate internal controls or provide oversight of the Department's financial operations resulted in the apparent misuse of Department funds as well as unaccounted-for raffle proceeds.

Recommendations

The Board should:

1. Investigate the apparent misuse of Department funds including the raffle proceeds.
2. Audit and approve claims prior to payment and ensure that all disbursements are supported by vouchers.
3. Review the Department's bank statements and canceled checks monthly and annually audit the Treasurer's records.
4. Ensure that Department officials maintain records of ticket sales and use of funds for Department-sponsored raffles.

The Treasurer should:

5. Maintain accurate, complete and up-to-date accounting records that document all cash receipt and disbursement transactions.
6. Prepare monthly bank reconciliations and present them with bank statements and canceled checks to the Board for review.
7. Make disbursements only as directed by the Board.

APPENDIX A

RESPONSE FROM DEPARTMENT OFFICIALS

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



OAKFIELD FIRE DEPARTMENT

20 Albert Street

November 13, 2014

We, the Board of Directors of the Oakfield Fire Department, would like to thank the Office of the State Comptroller, specifically [REDACTED] and [REDACTED], for all the work they have done. The Oakfield Fire Department does not find fault with any of the findings that have surfaced during this audit process. The Board of Directors acknowledges that there was oversight in some areas of our financial process that allowed individuals to take advantage of our funds for personal gain. We have since put some policies in place to strengthen our process. We agree with all of the corrective actions that have been suggested by your office, and we have also included additional safeguards of our own. We realize that the fundraiser in question does not have receipts or ticket stubs to support. We can not substantiate the possible number of tickets sold therefore that total amount is in question. By adopting the corrective actions we will become a more financially sound department and a stronger organization as a whole. Thank you again for all your hard work.

President

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Vice President

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Chad Williams _____

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We examined the internal controls over the Department's financial operations for the period January 1, 2012 through March 25, 2014. We interviewed appropriate Department officials and reviewed financial records and Board minutes. Our audit included various procedures to gather relevant evidence concerning our stated objective, including the following:

- We interviewed Department officials and reviewed Department bylaws to gain an understanding of the policies and procedures used to control, record and monitor cash assets and transactions.
- We reviewed minutes obtained from the Department Secretary.
- We obtained financial information, including bank statements and any available supporting documentation to determine if disbursements were properly authorized, supported and for valid Department purposes.
- We traced cash receipts from source documentation to the bank statements to determine if all funds were actually deposited.
- We reviewed compositions of deposits made to Department accounts, which were provided by the Department's bank.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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