



Nanticoke Volunteer Fire Department Misappropriation of Funds

Report of Examination

Period Covered:

January 1, 2012 — September 29, 2014

2015M-3



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2016

Dear Fire 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 moneys 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 Nanticoke Volunteer Fire Department, entitled Misappropriation of Funds. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for fire 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*

Introduction

Background

The Nanticoke Volunteer Fire Department (Department) was a not-for-profit organization which was located in the Towns of Nanticoke and Lisle in Broome County. The Department contracted with these Towns to provide fire protection and emergency services. After completion of our audit work but prior to the issuance of our audit report, the Department ceased operations and is currently awaiting dissolution approval from the New York State Attorney General's Office. The Department's fire protection contracts with the two Towns have been awarded to neighboring fire departments.

Although the Department has ceased operations, we believe it is still important to issue this report as this audit's results and recommendations are resources for other fire department officials to use in effectively managing operations and in meeting the expectations of their constituents.

The Department's primary source of revenue was from the fire protection contracts with the two towns. The Department had approximately 10 members and its 2015 budgeted appropriations were approximately \$59,800.

The Department operated in accordance with its bylaws and was governed by a four-member Board of Directors¹ (Board), which was responsible for the Department's overall financial management. The Department's members (membership) elected a Treasurer who acted as the chief fiscal officer. The Treasurer was responsible for receiving and maintaining custody of Department funds; for recording, disbursing and accounting for those funds; and for reporting monthly to the membership. In December 2013, the membership elected a Treasurer who served in this position until July 2014 (prior Treasurer), at which point the former Treasurer (current Treasurer) took over the remainder of her term.

The membership elected a Fire Chief whose responsibilities included overseeing on-site fire emergencies. The Fire Chief was also elected by the membership to serve as a Board member.

The Department was selected for audit due to concerns raised regarding its financial activities. A Department member, who also

¹ The Board was elected annually by the membership. For the 2014 fiscal year, the Board was comprised of the Fire Chief, the Treasurer, the Secretary and another member of the Department.

served on the Board, admitted to inappropriately using approximately \$7,124 of Department funds.² We were informed that this former Board member was the “girlfriend” of the Fire Chief. At the time of our audit, the Fire Chief and the former Board member made restitution to the Department totaling \$7,115. Our audit disclosed a total of \$7,780 in misappropriated funds.

Objective

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

- Did the Board and membership ensure that disbursements were for proper Department purposes and receipts were properly accounted for?

Scope and Methodology

We examined the Department’s internal controls over its financial operations for the period January 1, 2012 through September 29, 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 A of this report.

Comments of Local Officials

The results of our audit and recommendations were discussed with Department officials during fieldwork, and their comments have been considered in preparing this report. However, because the Department has taken action to dissolve and there are no longer any Department officials, a response could not be submitted and attached to this report.

² The sole confession to the theft was made by the former Board member, the Chief’s girlfriend. The Fire Chief told us that he was not aware that his girlfriend was paying his bills using Department funds. The Department gave him the benefit of the doubt in the matter.

Misappropriation of Funds

The Board was responsible for overseeing the Department’s fiscal activities and safeguarding its resources. The Treasurer was responsible for properly accounting for all receipts and disbursements. The bylaws required the Board to audit the Treasurer’s books at least once a year. Had the Board conducted the annual audit, it could have assisted in monitoring the Department’s financial operations and identifying the errors and irregularities presented in this report.

The Board did not ensure that all disbursements represented proper Department expenses and that cash receipts were properly accounted for. As a result of the lack of oversight and non-existent controls over cash receipts and disbursements, personal bills belonging to the Fire Chief and a former Board member were paid using \$7,780 of Department funds, and we could not verify the propriety of an additional 177 disbursements, totaling \$60,108. Furthermore, because of the lack of available supporting documentation, we could not determine if \$5,503 of recorded receipts from donations, hall rentals and fundraising activities were deposited.

Figure 1: Misappropriated Funds, Questionable Payments and Unaccounted for Receipts

Description	Amount
Misappropriated Funds – Payment of Personal Utility and Insurance Bills	\$7,780
Questionable Payments	\$60,108
Unaccounted for Receipts	\$5,503
Total Misappropriated Funds, Questionable Payments and Unaccounted for Receipts	\$73,391
Less: Restitution Paid for Utility Bills	\$7,115
Total Less Restitution Paid	\$66,276

Disbursements

The Board and membership should have been ensuring that all disbursements were for valid Department purposes, supported by a proper invoice and approved by the membership. Department procedures required the signatures³ of two officers on checks and withdrawals. Moreover, the Board and membership should have been reviewing the bank statement activity, including canceled check images and electronic transactions, to ensure all disbursements were for proper Department expenses.

³ There were four Department officials with check-signing authority on the bank accounts.

The Board and membership did not ensure that all disbursements represented proper Department expenses or were properly supported and approved. We reviewed all 316 disbursements⁴ totaling \$313,891 for the audit period from the bank statements and attempted to trace them to invoices⁵ or Board approval in the membership meeting minutes. Additionally, from the invoices reviewed, we ensured 14 items purchased were for Department use by locating them at the Department's building. Figure 2 shows the results of our testing:

Fiscal Year	Total Disbursements	Supported and Approved Expenses	Questionable Expenses ^a	Inappropriate Expenses
2012	\$112,862	\$83,147	\$27,566	\$2,149
2013	\$78,436	\$60,349	\$13,111	\$4,976
2014	\$122,593	\$102,507	\$19,431	\$655
Total	\$313,891	\$246,003	\$60,108	\$7,780

^a The Treasurer indicated that 101 of the questionable disbursements totaling \$38,911 were paid to regularly-used vendors and the Treasurer thought they appeared legitimate. However, there was either no supporting documentation or membership approval found for these disbursements. Therefore, we did not make a determination on their appropriateness.

We identified 20 electronic payments that were made to four utility vendors, totaling \$7,780, that were inappropriate Department expenses. We confirmed that these payments were not made for actual Department expenses. These payments were made electronically between July 2012 and January 2014 and were listed on the bank statement. The payments identified the names of the vendors and the customers. The customers were the Fire Chief and the former Board member. Thirteen of these payments were made to vendors with which the Department did not have accounts.

Vendor Type	Fire Chief		Former Board member	
	Number of Payments	Amounts	Number of Payments	Amounts
Cable	0	\$0	7	\$3,281
Insurance	1	\$188	0	\$0
Phone	11	\$3,878	1	\$433
Total	12	\$4,066	8	\$3,714

⁴ This includes all check images, withdrawals and electronic payments.

⁵ We obtained confirmations from vendors for amounts billed to Company accounts.

As of September 2014, the former Board member and current Fire Chief repaid \$7,115 of the total \$7,780 in inappropriate payments, leaving \$665 outstanding.

In addition to the inappropriate payments, there were 177 other disbursements totaling \$60,108 that lacked proper support, approval or both. For example, the Fire Chief had custody over the Department debit card and used it to make 27 purchases totaling \$3,702 during our audit period. Twenty-three of these transactions, totaling \$3,246, lacked both Board approval and supporting documentation. In addition, there was a cash withdrawal made at the bank for \$1,300 in January 2014 that was not supported or approved⁶ in the minutes. Department officials were unable to explain its purpose.

The Board had not implemented any internal controls that could have detected or prevented the losses. Furthermore, both the current Treasurer and the Board informed us that they did not review bank statements. The current Treasurer indicated that the prior Treasurer reviewed bank statements during her term and found \$7,124 of inappropriate disbursements. In addition, the May 2014 minutes indicated that the former Board member confessed to these inappropriate disbursements and resigned her position on the Board.⁷

Receipts

Good management practices require that all cash received be sufficiently documented, deposited into a legitimate Department bank account and reported to the membership. Department procedures should have detailed what records were to be maintained for each revenue activity and who was to collect and deposit funds. The records should have also included who received the money, who the money was from and the amounts and dates the money was received. This information could have then become a source to ensure that the receipts matched the amounts deposited in the Department's bank account. In addition, it would have helped to facilitate the Board's annual audit.

No one ensured that cash receipts were properly recorded or that collections were being deposited. The Board and the membership did not require the Treasurer and individual members responsible for cash collections to maintain adequate records and report all cash receipts to the membership at the monthly meetings. Furthermore, no one reviewed source documents or bank statements to ensure that all receipts were deposited.

⁶ The Fire Chief and one other authorized signatory to the account signed the withdrawal slip.

⁷ However, at the time, the Fire Chief and this former Board member were still members of the Fire Department.

We reviewed receipts during our audit period using several sources⁸ and traced these receipts to deposits:

Figure 4: Receipts for January 2012 through October 2014

Source of Revenue	Amount Documented as Received	Traced to Bank Deposit	Unaccounted for Receipts
Fire Protection Contracts	\$168,609	\$168,609	\$0
Foreign Fire Insurance	\$981	\$981	\$0
Loan Proceeds	\$79,766	\$79,766	\$0
Hall Rentals	\$2,760	\$2,200	\$560
Miscellaneous Revenues	\$32,917	\$27,974	\$4,943
Total	\$285,032	\$279,529	\$5,503

Of the \$285,032 total money recorded as received, we traced \$249,356 from fire protection contracts, foreign fire insurance and loan proceeds to the respective deposits. Of the remaining \$35,676 in recorded receipts, we could not trace \$5,500 to the bank deposits. We identified additional deposits totaling \$5,300 that we could not directly trace to a recorded receipt. However, the timing of some of these deposits was far removed from the recording of the moneys we noted as not deposited. For instance, there were eight recorded receipts totaling \$3,294 from January to August of 2012 that could not be traced to a deposit and the one unrecorded deposit in all of 2012 that was for \$1,900.

However, because the records were inadequate, we could not determine whether there were other receipts collected from donations, hall rentals and fundraising activities that were not reported, recorded or deposited. For example, the membership meeting minutes showed 12 instances where money should have been collected but did not indicate an associated amount, so we could not determine if these were actually collected or deposited. In addition, we found bank deposit tickets totaling \$700 in the hall rental files that were deposited into the Fire Chief's personal bank account. It was unclear why these deposit tickets were in the file cabinet or if the sources of these amounts were from hall rentals or from other Department revenue sources. However, based on our discussions with the President and review of the membership meeting minutes, \$500 of the \$700 deposited coincided with a regularly-scheduled annual function in which the attendees rented the hall and donated money to the Department. We were unable to verify if the remaining \$200 deposited into the Fire Chief's personal account represented additional moneys collected

⁸ Sources used included membership meeting minutes, check registers, hall rental applications and fire protection contracts.

on behalf of the Department beyond what had been recorded in the minutes and deposited into the Department's bank account.

Although the prior Treasurer detected the misappropriation of Department money, if someone had reviewed the bank statements consistently during our audit period, the inappropriate payments would have been detected sooner. Furthermore, the misappropriation of Department funds and questionable transactions continued to occur without detection because the Board never conducted an annual audit of the Department's financial records.

In May 2014, the Department took action and changed its checking account number, secured new check stock in a lock box and discontinued the use of a debit card. However, when the prior Treasurer resigned, the duties once again fell to the current Treasurer. The current Treasurer was not able to provide us with any evidence that he reviewed bank statements from the time these inappropriate expenses were discovered until we arrived onsite in September 2014. Moreover, the check register balance for September 2014 did not reconcile to the checking account's bank statement or to the balance reported to the membership at the monthly meeting. In addition, the Fire Chief was still a member of the Department and still had signatory authority on the Department bank account. We found no evidence that the Board President contacted law enforcement officials to report the theft of Department funds. Lastly, the Board still had not performed an audit of the Department's financial activity and Treasurer's records. Without proper controls, the Board was not able to ensure that all disbursements were for proper Department expenses or that all Department receipts were properly collected and deposited.

Recommendations

The Board and membership should have:

1. Determined the disposition of the misappropriated money and contacted law enforcement officials immediately.
2. Removed the Chief and prior Board member from the Department.
3. Developed procedures to help ensure that all cash disbursements were approved prior to payment and supporting documentation was properly maintained.
4. Performed a review of the bank statements, including canceled check images, on a monthly or periodic basis.

5. Ensured that an audit of the Treasurer's records was performed at least annually as required by the bylaws.
6. Developed procedures to help ensure that all cash receipts, including fundraising receipts, were properly accounted for and deposited.

APPENDIX A

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the controls over the Department's financial activities for the period January 1, 2012 through September 29, 2014. Our audit included the following various procedures to gather relevant evidence:

- We reviewed the Department's bylaws for any descriptions of the officers' duties and applicable financial procedures established for receipts and disbursements.
- We interviewed select Department officials regarding the controls over receipts and disbursements.
- We reviewed all 316 disbursements⁹ totaling \$313,891 from the Department's bank statements and attempted to trace to invoices, Board approval in the membership meeting minutes or both.
- We located 14 items to determine if they represented appropriate Department expenses and were present at the Fire Department building.
- We confirmed with select utility vendors the amounts the vendors billed the Department and compared these confirmed amounts to the amounts the Department paid to these vendors per the bank statement check images.
- We totaled the amount of money listed as being received from the Fire Chief and former Board member for restitution.
- We reviewed all cash receipts recorded during our scope period (which totaled \$285,032) using the membership meeting minutes, check register, hall rental applications and fire protection contracts. We traced these receipts to the bank statements and bank deposit details for the scope period. We also reviewed bank deposit compositions for the scope period for the source of collections to determine if there were other sources of revenue that needed to be included in our testing.
- We reviewed invoices paid by cash and reconciled these invoices to check images to determine if they represented documentation for any unsupported personal reimbursements.

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.

⁹ This included all check images, withdrawals, and electronic payments

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