



C. H. Evans Hook and Ladder Company No. 3

Missing Funds

Report of Examination

Period Covered:

October 1, 2009 — January 2, 2013

2013M-194



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2013

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 C. H. Evans Hook and Ladder Company No. 3, entitled Missing 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 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*

Introduction

Background

The C. H. Evans Hook and Ladder Fire Company No. 3 (Company) is one of four fire companies that collectively make up the City of Hudson (City) Fire Department. The Company provides fire protection and other emergency services to City residents. The City provides the fire companies with fire equipment, safety gear, and a fire house, and funds the Company's operations. In addition, each company is allocated a portion of the foreign fire insurance¹ funds. The companies also engage in fundraising activities to supplement the moneys received from the foreign fire insurance proceeds. The Company received \$5,800 of foreign fire insurance funds in 2012 and raised approximately \$1,200 from fundraising activity.

The Company is composed of approximately 35 active volunteer members who responded along with the other fire companies to 391 calls in 2012. The Company is governed by a governing body, which includes a President, Vice-President, Secretary, and Treasurer. The governing body is responsible for establishing internal controls over financial operations and monitoring to ensure assets are properly safeguarded.

The President is the Company's executive officer, is responsible for presiding over all meetings, and is required to countersign all checks presented to him by the Treasurer for payment of authorized expenditures. The Treasurer is the fiscal officer and is responsible for maintaining complete and accurate records of financial transactions, depositing funds received, and disbursing funds for authorized expenditures. The Secretary is responsible for maintaining records of all Company proceedings.

The City's Mayor contacted the police whom requested an audit of the Company subsequent to notification from the Company's bank that the Company's account was overdrawn.

Objective

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

¹ Foreign fire insurance moneys represent a tax on the premium paid on insurance policies as provided for in Insurance Law, which entitles fire companies or fire departments protecting an eligible area to receive an appropriate share of the tax collected on insurance policies written by foreign or alien insurers on policies within their area of protection.

- Did the governing body establish adequate internal controls over cash receipts and disbursements to properly account for and safeguard Company funds?

**Scope and
Methodology**

We examined internal controls over the Company’s financial operations for the period October 1, 2009, to January 2, 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 are included in Appendix B of this report.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Company officials. Company officials were given an opportunity to respond to our findings and recommendations within 30 days of the exit conference, but they did not respond.

The governing body 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 governing body to make this plan available for public review in the Company Secretary’s office.

Missing Funds

The governing body is responsible for protecting Company moneys from loss, misuse, or abuse by developing and implementing a system of internal controls which provides reasonable assurance that Company resources are adequately safeguarded, and that all financial activities are accounted for properly. The Company's by-laws provide for policies and procedures relating to control of the Company's assets. The by-laws require the Treasurer to maintain complete and accurate records to properly account for the Company's financial activities. The Treasurer must maintain supporting documentation in the form of invoices, purchase receipts, and vouchers to support the disbursement of Company funds, and support for receipts collected, including amounts received from fundraising activities. By-laws also require the Treasurer to report quarterly and annually a detailed accounting of receipts, disbursements, and resulting cash and investment balances in the Company's bank accounts.

The Company's governing body did not adequately safeguard the Company's money. The governing body did not develop and implement internal controls over its cash disbursement and receipt functions and did not ensure the Company's by-laws were implemented. The Treasurer did not maintain reports of the Company's financial activities, report to the governing body, or prepare monthly bank reconciliations. As a result, the President was able to misuse the Company's debit card and apparently misappropriate nearly \$34,000 of the Company's funds during the period October 2009 to December 2012. In addition, during this period, the President made additional questionable purchases and cash withdrawals totaling more than \$7,500.

Cash Disbursements

A good system of internal controls over cash disbursements ensures that payments are for valid Company purposes, supported by an invoice or receipt, and properly recorded. Company by-laws require that disbursements in excess of \$50 be approved by two-thirds of the members present at a given meeting, and that all moneys expended be paid by check payable to the claimant, signed by the Treasurer, and countersigned by the President or Vice-President.

The President did not comply with the Company's by-laws and made disbursements without approval of the Company's members. The President made unauthorized purchases and cash withdrawals totaling \$33,936, during the audit period. Although there is no provision in the by-laws that would permit the use of debit cards, the Company obtained debit cards associated with its checking accounts.

The President had possession of one of the debit cards and used it to make \$33,936 in unauthorized transactions, including 23 ATM withdrawals totaling \$7,342, and 82 online purchases of pornography totaling \$4,134. Table 1 lists the unauthorized transactions.

Table 1: Unauthorized Transactions	
Purchase Type	Amount
ATM Withdrawal	\$7,342.50
Pornography	\$4,134.42
Personal Expenditures (including phone, utilities, cable)	\$3,378.21
Furniture Rental Company	\$3,064.23
Home Improvement Store	\$2,778.54
Paypal	\$2,604.37
Retail Store	\$4,987.49
Car Repair / Car Rental	\$2,001.57
Gas Station	\$1,372.95
Miscellaneous	\$1,361.69
Grocery Store	\$910.79
Total	\$33,936.76

Items the President purchased with the debit card for his apparent personal use included an iPad, cherry bunk beds, jewelry, and an aquarium. Numerous tools were purchased, including but not limited to a table saw, drill combo, work light, wet/dry vacuum, miter saw stand, and heavy-duty hammer drill.

We also identified \$7,592 in other questionable purchases and cash withdrawals. Neither the President nor the Treasurer had any documents, such as receipts, to substantiate these transactions. Of these \$7,592 in questionable transactions, \$6,551 were made with a Company debit card. Purchases were made from a home improvement store totaling \$1,329 and miscellaneous retail establishments totaling \$1,571. Four cash withdrawals from the Company's bank accounts totaling \$778 were also made. Additionally, we identified two transactions totaling \$263 made at a retail store, paid by check, which were deemed to be questionable.

The President's misuse of the Company's debit cards was not detected because the governing body did not implement proper controls over disbursements, particularly use of the Company's debit card. In addition, the President assumed the duties of the Secretary in receiving the mail, including the bank statements, which he withheld from the Treasurer in an apparent attempt to cover up the misuse of funds. In addition, the Treasurer did not inform the governing body

or the members of the lack of internal controls and took no steps to ensure the safety of the Company's funds. The accounting system maintained by the Treasurer consisted of a check register which was incomplete. Invoices and purchase receipts that supported purchases were rarely kept, and those that were found were not maintained on Company premises. Further, since the Treasurer was not provided the bank statements, he was unable to prepare bank reconciliations, which would have detected the President's abuse of the debit card.

Cash Receipts

The Company's by-laws require the Treasurer to receive all moneys collected by members or otherwise due to the organization and to issue a written receipt for all collections. The Treasurer is also responsible for keeping records of receipts and depositing all funds in bank accounts designated by the governing body. Good management practices require that these receipts be recorded in a duplicate receipt book and cash receipts journal to provide a detailed record of the amounts and dates received, who received the receipts, and the sources. This information then becomes a summary of the amounts deposited in the bank.

The Treasurer did not maintain records of cash receipts as required by Company by-laws. The Company holds fundraisers annually, generally in October or November. Company members gather in a busy intersection and solicit donations. Moneys received are in the form of cash or coins. During the course of the audit, we reviewed documentation such as minutes that indicated fundraising was done during 2009, 2010, and 2012. We found documentation indicating that the Company collected at least \$1,600 and \$1,200 for 2010 and 2012, respectively. There was evidence of fundraising in 2009 but there were no evidence indicating how much was collected.

We examined all of the deposits for the audit period, which comprised 16 deposits totaling \$34,095 to determine if Company collections from fundraisers were deposited. Supporting detailed documentation which provided information on the source of the receipt for each of the deposits was obtained from the Company's banks. No moneys were deposited in 2009, 2010, and 2012 from fundraisers. We estimated that approximately \$4,200 to \$5,600² was collected from the fundraisers but was not deposited and is unaccounted for. The Treasurer stated that he was not versed with the requirements of the Treasurer's position and the Company's by-laws. Without receipts and deposit slips to coincide with the fundraising, there are no checks and balances and no means for the governing body to ensure all moneys collected are deposited.

² Assuming fundraising took place in 2011, \$1,400 average collection, times four years

Recommendations

1. Company officials should develop internal controls over the Company's cash disbursement and receipt functions to ensure the implementation of the Company's by-laws, including:
 - The approval of disbursements in excess of \$50
 - That payments made by check have dual signatures, first by the Treasurer, and second by either the President or the Vice-President
 - That the Treasurer maintains detailed cash receipt and disbursement records.
2. Company officials should make provisions in the by-laws addressing the use of debit cards and develop policies and procedures for such use.
3. Company officials should ensure that disbursement records are maintained.
4. Company officials should require that the Secretary receive the mail and disburse it to the appropriate officials.
5. Company officials should review all invoices and ensure that monthly bank reconciliations are completed.
6. Company officials should develop internal controls to ensure that all collections are accounted for and deposited.
7. Company officials should review bank records to ensure that transactions listed agree with disbursements approved and the record of collection.
8. Company officials should provide the Treasurer with training to properly perform the duties.
9. Company officials should seek reimbursement for the funds misappropriated.

APPENDIX A

QUESTIONABLE TRANSACTIONS

Table 2		
Date	Vendor/Type	Amount
Amazon		
10/3/2012	Amazon Mktplace Pmts/Amzn.com	\$26.37
10/3/2012	Amazon Mktplace Pmts/Amzn.com	\$28.77
10/4/2012	Amazon Mktplace Pmts/Amzn.com	\$57.94
	Subtotal	\$113.08
Eateries/ Restaurants		
10/8/2010	Angela's Pizza & Pasta, Hudson, NY	\$70.48
11/5/2010	Angela's Pizza & Pasta, Hudson, NY	\$93.43
4/2/2010	Dominos Pizza	\$35.00
12/5/2011	Dunkin #341975, Hudson, NY	\$38.13
12/5/2011	Dunkin #341975, Hudson, NY	\$16.07
7/23/2012	Golden Corral 760, Albany, NY	\$28.04
9/12/2012	Morabito's Sub Shop, Hudson, NY	\$55.81
7/13/2012	Mc Donald's, Hudson, NY	\$23.30
7/26/2012	Mc Donald's, Pleasant Valley, NY	\$19.62
8/18/2010	McDonald's, Hudson, NY	\$43.20
7/20/2012	Pizza Hut #12822	\$53.95
2/3/2012	Pizza Hut #12822, Hudson, NY	\$60.00
7/2/2010	Pizza, Hudson, NY	\$66.92
6/4/2010	Pizza, Hudson, NY	\$56.13
3/2/2011	Stellas, Hudson, NY	\$84.19
4/11/2011	Stellas, Hudson, NY	\$51.95
	Subtotal	\$796.22
Cash Withdrawals		
2/15/2012	Cash	\$110.00
6/9/2011	Joe Morrison Sr	\$200.00
6/28/2010	Joe Morrison Jr	\$168.00
10/9/2010	Joe Morrison Jr	\$300.00
	Subtotal	\$778.00
Convenience Stores		
4/6/2012	Claverack Market, Claverack, NY	\$67.78
7/16/2012	Claverack Xtra Mart, Claverack, NY	\$9.61
	Subtotal	\$77.39

Internet Purchases		
8/9/2012	eReplacementparts.com	\$29.13
3/17/2011	Sears.com Internet	\$194.39
9/12/2012	Microsoft Store	\$137.69
	Subtotal	\$361.21
Lowe's		
3/7/2011	Lowe's # 02927, Hudson, NY	\$73.40
3/12/2011	Lowe's # 02927, Hudson, NY	\$441.09
3/14/2011	Lowe's # 02927, Hudson, NY	\$232.85
3/17/2011	Lowe's # 02927, Hudson, NY	\$134.61
3/26/2011	Lowe's # 02927, Hudson, NY	\$17.96
3/26/2011	Lowe's # 02927, Hudson, NY	\$116.12
3/28/2011	Lowe's # 02927, Hudson, NY	\$33.98
4/16/2011	Lowe's # 02927, Hudson, NY	\$243.97
5/19/2011	Lowe's # 02927, Hudson, NY	\$35.24
	Subtotal	\$1,329.22
Grocery Stores		
11/6/2010	Price Chopper	\$15.97
11/29/2011	Price Chopper #132 Hudson, NY	\$21.62
8/3/2012	Price Chopper #132, Hudson, NY	\$105.82
9/11/2012	Price Chopper #132, Hudson, NY	\$42.30
9/11/2012	Price Chopper #132, Hudson, NY	\$42.30
7/18/2012	Price Chopper #132, Hudson, NY	\$177.98
11/21/2011	Shop Rite Hudson, NY	\$36.80
3/22/2011	Shop Rite of Hudson, Hudson, NY	\$43.98
7/19/2012	Shop Rite, Hudson, NY	\$173.95
5/29/2012	Shop Rite, Hudson, NY	\$67.44
7/12/2012	Hannaford #8416, Hudson, NY	\$20.70
11/28/2011	Ginsberg Institutional Hudson NYUS	\$10.27
	Subtotal	\$759.13
Rosen's		
3/10/2011	Rosens Uniforms, Albany, NY	\$300.00
3/10/2011	Rosens Uniforms, Albany, NY	\$119.90
	Subtotal	\$419.90

Retail		
3/17/2011	Sears Dealer 3839, Hudson, NY	\$399.99
3/17/2011	Sears Dealer 3839, Hudson, NY	\$129.99
4/9/2011	Staples, Hudson, NY	\$685.49
4/18/2011	Staples, Hudson, NY	\$99.90
4/23/2011	Staples, Hudson, NY	\$44.48
6/4/2011	Staples, Hudson, NY	\$49.99
4/18/2011	Radio Shack, Hudson, NY	\$19.99
5/29/2012	Tractor Supply #755, Hudson, NY	\$12.95
6/28/2011	Hillcrest Press, Catskill, NY	\$86.00
6/3/2010	KD Hallmark Gallery #1, Hudson, NY	\$23.72
12/5/2011	Dollar General	\$18.95
	Subtotal	\$1,571.45
Postal Charges		
9/24/2012	USPS, Hudson, NY	\$45.00
	Subtotal	\$45.00
Walmart		
1/13/2012	Walmart	\$150.00
5/4/2012	Walmart #2097, Hudson, NY	\$30.24
11/15/2010	Wal-Mart #2097, Hudson, NY	\$92.28
12/3/2010	Wal-Mart #2097, Hudson, NY	\$57.51
2/4/2011	Wal-Mart #2097, Hudson, NY	\$61.61
4/9/2011	Wal-Mart #2097, Hudson, NY	\$448.00
4/23/2011	Wal-Mart #2097, Hudson, NY	\$2.85
12/24/2009	Walmart Stores - Telecheck	\$113.39
	Subtotal	\$955.88
Other		
9/23/2011	Witmer Public Safety G Coatsville, PA	\$337.46
9/10/2012	Clark Home Respiratory Sp, Hudson	\$48.10
	Subtotal	\$385.56
	Total	\$7,592.04

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The City Mayor contacted the Hudson Police Department to perform an investigation of the Company. The City Police asked us for assistance in determining the total amount of misappropriated funds. After reviewing the information provided, we decided on the reported objective and scope. Based upon information discovered during the course of the audit, we expanded the scope of the audit to October 1, 2009.

We reviewed pertinent documents such as the Company's by-laws, meeting minutes, and financial records and reports for the period October 1, 2009, through January 2, 2013. To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We met with a City Police Department detective and viewed taped interviews of the Company President, Vice-President, Treasurer, and Secretary conducted by the Hudson Police Department.
- We reviewed the Company's Constitution and by-laws, and the minutes and proceedings of the governing body.
- We interviewed the Hudson City Fire Commissioner, one member of the Board for the Hudson Fire Department, and one Company member.
- We reviewed bank statements and check registers and used the bank statements to compile a complete record of transactions.
- We prepared and reviewed bank confirmations.
- For each transaction, whether deposit or disbursement, we reviewed available supporting documentation to determine whether the transaction was valid.
- We reviewed third-party information regarding the amount of foreign fire insurance moneys distributed to the Company and compared the receipt of these moneys to Company deposits.

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