



# Monterey Fire Company, Inc.

## Misappropriation of Funds

### Report of Examination

Period Covered:

January 1, 2007 — March 14, 2013

2013M-17



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

March 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 Board 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 Monterey Fire Company, Inc., 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 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 Monterey Fire Company, Inc., (Company) is a not-for-profit organization incorporated in 1952. The Company, located in the Town of Orange in Schuyler County, has approximately 40 members. The Town of Orange (Town) contracts with the Company to provide fire protection services to its residents. The Company's primary sources of revenue are the fire protection contract, foreign fire insurance premiums, and annual fundraising activities. During our audit period, the Company's revenues ranged from approximately \$77,000 to \$99,000 each year<sup>1</sup> and its disbursements totaled \$551,402.

The Company is governed by its Constitution and bylaws (bylaws). The officers of the Company are a seven-member elected Board of Directors (Board): the President, Treasurer, Fire Chief, and four directors. The President is the Company's chief executive officer. The Treasurer is the Company's chief fiscal officer and is responsible for the receipt, custody, disbursement, accounting for, and reporting of Company moneys. The Treasurer is required to provide monthly financial reports to the Board and membership. The Board is responsible for holding monthly meetings and making recommendations on the allocation of resources and membership. At least five active members must be in attendance at each meeting to approve the payment of bills.

During our audit period, two individuals served successively as Company Treasurer. The former Treasurer (Treasurer) served from the beginning of our audit period until her resignation in February 2012,<sup>2</sup> when she was replaced by the former Company President on the advice of the Fire Chief. The subsequent Treasurer served until January 14, 2013. For purposes of this report, "Treasurer" refers to the former Treasurer unless indicated otherwise. The person who served as Fire Chief during our audit is the former Treasurer's husband.

## Objective

The objective of our audit was to evaluate the Company's financial operations for the period January 1, 2007, to March 14 2013. Our audit addressed the following question:

- Were Company funds used appropriately?

<sup>1</sup> The revenues deposited were \$98,736 for 2007; \$87,085 for 2008; \$77,358 for 2009; \$90,601 for 2010, \$93,731 for 2011; and \$92,285 for the first six months of 2012.

<sup>2</sup> The Treasurer said she resigned in February 2012 and the subsequent Treasurer took over. However, there were no minutes available to determine if the new Treasurer's appointment was approved by the Board and membership.

**Scope and  
Methodology**

We examined internal controls over the Company's financial operations for the period January 1, 2007, to March 14, 2013. The evidence we used during this audit included documentation gathered by subpoena because the former and subsequent Treasurers did not provide documentation we requested. The President also obtained evidence, such as vendor statements, for our review.

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 D of this report.

**Comments of  
Company Officials and  
Corrective Action**

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

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Company Secretary's office.

## Treasurer's Activities

According to the Company's bylaws, the Treasurer must keep accurate records of all Company funds, money, and financial accounts and present a report of the treasury to the Board at each regular meeting. The Treasurer is to receive all Company moneys and pay all orders voted to be paid by the membership and, along with an appointed officer, sign all financial transactions drawn on the treasury. All money earned from fire protection contracts must be used for appropriate Company purposes. The Board is responsible for overseeing the Company's fiscal activities and safeguarding its resources, which includes a monthly review of the Treasurer's report, bank statements and bank reconciliations to ensure that Company records agree with the bank statements. Additionally, best practices include an annual independent audit of the Treasurer's financial records, which can help identify errors and irregularities.

The Board and membership were negligent in the performance of their oversight of the Company's financial operations. All financial activities were performed solely by the Treasurer, and the Board did not implement compensating controls. This egregious lack of oversight created a weak control environment that allowed the Treasurer and the Fire Chief to misappropriate as much as \$140,000 of Company funds during our audit period.

The Board did not oversee purchasing, audit claims, obtain written monthly financial reports from either Treasurer, require reconciliations of the bank statements with Company records, or obtain an independent audit of the Treasurer's financial records. The Treasurer made purchases, paid bills, wrote checks, and made ATM cash withdrawals for personal purposes with no oversight. As a result, the Treasurer and Fire Chief were able to initiate non-Company transactions without detection by making purchases with the Company's bank debit card and on the Company's credit with vendors. The Treasurer also issued Company checks to herself, her husband (the Fire Chief), her father-in-law, and their related businesses, and made ATM cash withdrawals of Company funds. Additionally, the Fire Chief used the Company's accounts to make sales tax-exempt purchases for his contracting business – some of which he paid with the Company's debit card – and used Company funds to help purchase a personal vehicle. Finally, the Treasurer deposited company revenues totaling \$213 into her personal credit union account. These personal purchases, payments, cash withdrawals, and misappropriated Company revenues totaled \$113,311. We also identified another \$26,386 in questionable payments and purchases that appeared to be personal in nature.

The Treasurer did not turn over the Company's books, records or financial documents to her successor as required by the bylaws.<sup>3</sup> We reviewed the disbursements made by both Treasurers as listed on the bank statements and found that almost all lacked supporting documentation.<sup>4</sup> We found the disbursements by the subsequent Treasurer were for Company purposes, except one payment totaling \$343 that was for an old outstanding invoice to a questionable vendor.

On October 3, 2012, the Treasurer gave us a signed statement that she used Company funds for her personal use, such as home mortgage payments and department store purchases. After this meeting, we referred the matter to the New York State Police (State Police) and the Schuyler County District Attorney. On December 12, 2012, the Treasurer provided the State Police a signed statement that she used Company funds to pay her personal mortgage, cell phone and utility bills, buy groceries and gasoline, make purchases at department stores, and write checks to herself that she cashed, deposited into the personal credit union account shared with her husband, or gave to her husband, the Fire Chief.

The Treasurer also made ATM withdrawals with the Company debit card and used the Company debit card for family vacations and to attend a concert. Additionally, she stated that, in the summer of 2011, the Fire Chief asked her to write a check payable to his business totaling \$2,200 under the guise of a small-engine contract so that he could purchase a Ford Mustang, and said there were other similar incidents. On January 11, 2013, the State Police arrested the Treasurer and Fire Chief and charged them with grand larceny.

Table 1 summarizes the types and amounts of misappropriations made during the audit period. (See Appendixes A and B for details.)

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<sup>3</sup> The bylaws require that within 10 days of the conclusion of the Treasurer's term of office or resignation, all updated books, documents, and other Company property must be delivered to the successor.

<sup>4</sup> Of the \$472,184 in disbursements paid by the former Treasurer, \$454,419 (96 percent) lacked supporting documentation. Of the \$79,218 in disbursements paid by the subsequent Treasurer, \$37,730 (48 percent) lacked supporting documentation.



<b>Table 1: Misappropriation of Company Funds January 1, 2007-July 31, 2012</b>			
<b>Type of Misappropriation</b>	<b>Personal Amounts</b>	<b>Questionable Amounts</b>	<b>Total</b>
Department stores	\$34,802	\$2,895	\$37,697
Payments to Treasurer's husband (Fire Chief) and his businesses	\$21,233	\$0	\$21,233
Utilities	\$13,441	\$2,943	\$16,384
Payments to Treasurer	\$12,077	\$0	\$12,077
ATM cash withdrawals	\$9,530	\$0	\$9,530
Hardware and lumber	\$0	\$9,107	\$9,107
Home mortgage	\$ 8,833	\$0	\$8,833
Equipment maintenance and rental	\$1,963	\$5,419	\$7,382
Miscellaneous	\$ 4,243	\$1,641	\$5,884
Food	\$1,862	\$1,014	\$2,876
Unknown	\$0	\$2,680	\$2,680
Gas stations	\$2,307	\$0	\$2,307
Payments to Treasurer's father-in-law and his business	\$1,993	\$0	\$1,993
Medical	\$814	\$687	\$1,501
Misappropriated Company Revenues	\$ 213	\$0	\$213
<b>Total</b>	<b>\$113,311</b>	<b>\$26,386</b>	<b>\$139,697</b>

Had the Board taken the basic steps of requiring documentation to support disbursements and reviewing banking records, these misappropriations over several years' time could have been prevented.

### **Improper Banking Transactions**

It is essential to ensure that expenses paid represent actual and necessary charges and that supporting documentation is maintained for all disbursements. Supporting documentation could include invoices or other records providing the date and purpose for each disbursement. According to the Company's bylaws, the membership is responsible for approving each claim before payment and an appointed officer from the Company is responsible for signing all disbursements in conjunction with the Treasurer.

We found \$44,833 in improper personal payments made by the Treasurer, comprising checks issued to herself, her husband, her father-in-law, and their related businesses totaling \$35,303 and \$9,360 in ATM cash withdrawals with \$170 in associated fees. In addition, the



Treasurer deposited a check made payable to the Company, totaling \$213, into the personal credit union account shared with her husband.

Payments to the Treasurer – Although the Treasurer did not earn a salary for her position, she deposited to the personal credit union account she shared with her husband or cashed a total of 27 Company checks totaling \$12,077.

This included 22 Company checks totaling \$8,630 made payable to herself; three Company checks made payable to, and cashed at, the Treasurer's/Fire Chief's personal credit union account totaling \$1,797;<sup>5</sup> and two checks payable to the Company totaling \$1,650, which were deposited in the personal credit union account. All checks were endorsed by the Treasurer, with the exception of the three payable to the personal credit union account. There was no evidence that the Treasurer submitted any of these payments to the Board and membership for their review and approval, and no documentation to support the payments or otherwise substantiate their legitimacy and appropriateness.

Payments to the Treasurer's Husband (Fire Chief) and His Businesses – The Treasurer prepared 26 checks totaling \$21,233 made payable to her husband or his two businesses (a DJ service and a contracting business).

According to the check memo, 16 payments totaling \$9,808 were for reimbursements, seven payments totaling \$9,950 were for preventive maintenance contracts, and six payments totaling \$1,475 were for DJ services.<sup>6</sup> None of these checks included any supporting documentation, such as receipts or invoices, and they were not submitted to the Board and membership for approval. The President could not substantiate these payments as being for legitimate Company purposes. In addition, there was no signed contract with the Fire Chief or approval by the Board or membership to provide preventive maintenance services to the Company, or any documentation that supported the payments or substantiated their legitimacy and appropriateness. In fact, the Treasurer stated that in the summer of 2011, the Fire Chief asked her to write a check payable to his business totaling \$2,200 under the guise of a small-engine contract, so that the proceeds could be used in the purchase a Ford Mustang. Although the Treasurer could not offer other examples of the Fire Chief directing payments in this manner, she said it was not the only time it happened.

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<sup>5</sup> One of these checks was used to purchase a money order at the credit union. The money order was later deposited into the Treasurer's and Fire Chief's personal credit union account.

<sup>6</sup> Three checks were for two types of payments (DJ services and reimbursement).

Payments to the Treasurer's Father-In-Law and His Business – The Treasurer prepared seven checks totaling \$5,843 made payable to her father-in-law or his business. Four of the seven checks, totaling \$1,993, had no supporting documentation<sup>7</sup> or evidence to show they were for legitimate Company purposes. Furthermore, two of the four payments, totaling \$1,700, were apparently for the preventive maintenance services previously paid.

ATM Cash Withdrawals – The Company had a bank debit card that could be used for ATM cash withdrawals, in-store and online purchases, and electronic payment of bills. During our audit period, there were 42 ATM withdrawals totaling \$9,360 with \$170 in associated bank/service fees. Although both the Treasurer and Fire Chief had access to the bank debit card, the Fire Chief stated that he did not know the PIN required to withdraw cash. The Treasurer said she used the bank debit card to make cash withdrawals for herself and for Company purposes such as start-up cash for fundraising activities. However, there was no documentation or evidence to show that withdrawn funds were used for Company purposes. Further, many ATM withdrawals coincided with other personal and questionable bank debit card purchases and 18 cash deposits to the personal credit union account of the Treasurer and Fire Chief.

Misappropriated Company Revenues – Because the Treasurer was able to deposit the two checks totaling \$1,650 made payable to the Company into the personal credit union account of the Treasurer and the Fire Chief, we reviewed all the deposit compositions for that account from January 1, 2008,<sup>8</sup> through September 30, 2012, to determine if any other Company revenues were improperly deposited. We found one revenue check from the Foodbank of the Southern Tier made payable to the Company that was deposited into the personal credit union account in the amount of \$213.

On March 14, 2013, we reviewed information from another bank where the Treasurer and her husband had an account to determine if any additional Company funds were deposited into this account. Because deposits were generally composed of cash, we could not determine if additional Company funds were deposited.

## **Personal Purchases**

The fundamental objective of a procurement process is to ensure that services or materials, supplies, and equipment obtained are for legitimate organizational purposes and to prevent the diversion of resources for private gain and enrichment.

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<sup>7</sup> Two checks totaling \$1,700 were cashed by the Treasurer's personal credit union, one check totaling \$105 was also cashed at the Treasurer's other personal bank, and the last check totaling \$188 did not have an identifying bank stamp, but was cashed.

<sup>8</sup> Deposit compositions were not available for 2007.

Our review of the bank statements and vendor invoices/statements, when available, identified personal purchases totaling \$68,265 made during the audit period.<sup>9</sup> The Treasurer's statement to the State Police stated, in part, that she had used Company resources to make numerous purchases like those described below.

The Treasurer made \$34,802 in purchases to various department stores. She used the Company's bank debit card and vendor credit card to make purchases from and payments to Walmart/Sam's Club totaling \$31,221 for items such as jewelry, computers, game consoles, cameras, men's and women's clothing, prescriptions, groceries, a treadmill, and a microwave. The remaining \$3,581 in department store purchases was mostly from clothing stores.

Additionally, we identified payments totaling \$33,463 for various personal purposes as follows:

- The Treasurer's and Fire Chief's home mortgage and utilities totaling \$8,833 and \$13,441, respectively
- Purchases at local grocery stores and for gasoline totaling \$1,862 and \$2,307, respectively
- Various medical purchases totaling \$814
- Miscellaneous purchases totaling \$4,243, including Def Leppard concert tickets, campground rentals for family vacations of the Treasurer and Fire Chief, PAYPAL, and various collectibles.
- Equipment rentals for items such as boom lifts, scaffolding, and aluminum breaks that the Fire Chief commonly used in his contracting business and RV parts totaling \$1,963. The Fire Chief confirmed that he used Company credit accounts with these vendors to make sales tax-exempt purchases for his business.

### **Questionable Payments and Purchases**

In the absence of supporting documentation or specific admissions by the Treasurer and the Fire Chief, we were unable to determine if payments totaling \$26,386 were for legitimate Company expenditures. However, they appear personal in nature and are questionable.<sup>10</sup> For example, the Treasurer made purchases totaling \$2,895 from various department stores and purchases totaling \$1,014 from various grocery stores and restaurants. We were unable to determine if payments

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<sup>9</sup> See Appendix A for details of these purchases.

<sup>10</sup> See Appendix B for details of these expenditures.

totaling \$2,943 to a phone carrier were Company expenditures because the vendor did not provide invoices/statements upon our request; however, the Treasurer confirmed that she used Company funds to pay for her family's cell phone usage. We also question purchases totaling \$9,107 to hardware/lumber stores and \$5,419 to auto parts and equipment rental stores because we previously determined, by reviewing vendor statements and invoices, that the Fire Chief used various Company vendor accounts to make purchases for his contracting business. There were also miscellaneous purchases totaling \$1,641 and medical-related purchases totaling \$687 that we were unable to confirm as Company expenditures. In addition, we were unable to identify the purpose or type of purchase for 20 claims totaling \$2,680.

## **Reimbursed Funds**

Our audit found that the Treasurer and Fire Chief reimbursed the Company a combined total of \$5,846 in late 2011 and early 2012. Most of this amount was to repay funds that the Treasurer had overdrawn in the Company's bank account.

With these reimbursements, the total of misappropriated funds and questionable payments/purchases comes to approximately \$134,000.

The failure of the Board and membership, as stewards of public funds, to safeguard Company resources while allowing the Treasurer to perform key financial duties with no oversight resulted in the ongoing misappropriation of funds without detection.

## **Recommendations**

1. The Board should take immediate action to strengthen the Company's control environment and develop, adopt, and implement written policies and procedures to control and monitor Company operations. These policies and procedures should:
  - Ensure that all cash transactions are approved by the Board and membership and are for appropriate Company purposes.
  - Require routine Board monitoring and review of the Treasurer's work. These compensating controls should include reviewing the Company's bank statements and reconciliations, claims, canceled checks, deposit slips, and financial records and reports.
  - Require an annual audit by the Board of the Treasurer's books and records.

2. The Company should seek reimbursement for the \$35,303 in improper payments to the Treasurer, her husband and father-in-law; the \$9,530 in ATM withdrawals and related fees from the Treasurer; the deposit of \$213 in Company funds into the Treasurer's and Fire Chief's personal credit union account; and the \$68,265 in improper purchases, from the Treasurer and Fire Chief.
3. The Board should investigate and determine if any of the \$26,386 in questionable purchases were legitimate and seek reimbursement for all inappropriate payments.

## APPENDIX A

### PERSONAL PURCHASES

Table 2: Personal Purchases	
Department Stores	Amount
Walmart	\$22,781
Sam's Club	\$8,440
Burlington Coat Factory	\$26
Deb's Shop	\$170
Dick's Sporting Goods	\$97
Game Stop	\$133
Ginny's	\$100
Hobby Lobby	\$489
JCPenney	\$84
Jo-Ann Fabrics	\$142
Kohl's	\$297
Life Uniform	\$605
Maurice's	\$191
Michael's	\$146
Olympia Sports	\$151
Sally's Beauty Supply	\$361
Seventh Avenue	\$100
Toys R Us	\$231
Ulta	\$133
Victoria's Secret	\$125
<b>Subtotal – Department Stores</b>	<b>\$34,802</b>
Equipment Maintenance and Rental	Amount
PPL RV Parts	\$227
Wilson Rental	\$1,736
<b>Subtotal – Equipment Maintenance and Rental</b>	<b>\$1,963</b>
Food	Amount
P&C	\$962
Top's Market	\$900
<b>Subtotal – Food</b>	<b>\$1,862</b>
Medical	Amount
CVS Pharmacy	\$414
Empire Vision	\$400
<b>Subtotal – Medical</b>	<b>\$814</b>
Utilities	Amount
AT&T	\$12,751
NYSEG	\$690
<b>Subtotal – Utilities</b>	<b>\$13,441</b>
Other	Amount
Gasoline	\$2,307
Home Mortgage	\$8,833
Miscellaneous	\$4,243
<b>Subtotal – Other</b>	<b>\$15,383</b>
<b>Total – Personal Purchases</b>	<b>\$68,265</b>

## APPENDIX B

### QUESTIONABLE PURCHASES

<b>Table 3: Questionable Payments and Purchases</b>	
<b>Department Stores</b>	<b>Amount</b>
Barnes & Noble	\$86
Best Buy	\$648
Dollar General	\$125
Family Dollar	\$199
Kmart	\$153
Radio Shack	\$402
Sears	\$97
Staples	\$812
Watkins Glen Sporting Goods	\$306
Yesterday's	\$67
<b>Subtotal – Department Stores</b>	<b>\$2,895</b>
<b>Equipment Maintenance and Rental</b>	<b>Amount</b>
Auto Parts Direct 2 You	\$232
AW Direct	\$235
BNO International Trading Company	\$208
Carquest	\$556
Cheap Parts	\$167
Heath Diesel	\$570
Interstate Battery	\$2,119
Ithaca Recreation	\$29
Learn Motor Company Inc.	\$103
Northern Tool	\$637
Parmenter	\$274
Polaris USA	\$198
Scanner World	\$91
<b>Subtotal – Equipment Maintenance and Rental</b>	<b>\$5,419</b>
<b>Food</b>	<b>Amount</b>
Cracker Barrel	\$26
Curley's Family Restaurant	\$94
Domino's	\$47
Friendly's	\$6
Horseheads Beverage Center	\$120
Monterey Jack's	\$78
Monterey Red & White	\$372
Ruby Tuesday's	\$74
Tom Wahl's	\$8
Trailside Café	\$59
Uno Chicago	\$31
Wegman's	\$99
<b>Subtotal – Food</b>	<b>\$1,014</b>



<b>Table 3: Questionable Payments and Purchases Continued</b>	
<b>Hardware and Lumber</b>	<b>Amount</b>
Campbell Building Supply	\$1,229
Chemung Supply	\$29
Coon's Supply	\$80
Corning Building Company	\$1,351
Home Depot	\$2,072
Horseheads Do-It-Best Center and Rental Center	\$481
Lowe's	\$1,706
Stillman's	\$123
Tractor Supply	\$147
Value Home Center	\$764
Watkins Glen Lumber	\$97
Watkins Glen Supply	\$1,028
<b>Subtotal – Hardware and Lumber</b>	<b>\$9,107</b>
<b>Medical</b>	<b>Amount</b>
Arnot Medical Services	\$177
ER Solutions	\$470
Guthrie Clinic	\$40
<b>Subtotal – Medical</b>	<b>\$687</b>
<b>Utilities</b>	<b>Amount</b>
Verizon	\$2,943
<b>Subtotal – Utilities</b>	<b>\$2,943</b>
<b>Other</b>	<b>Amount</b>
Miscellaneous	\$1,641
Unidentified	\$2,680
<b>Subtotal – Other</b>	<b>\$4,321</b>
<b>TOTAL – Questionable Payments and Purchases</b>	<b>\$26,386</b>

## **APPENDIX C**

### **RESPONSE FROM COMPANY OFFICIALS**

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



Monterey Volunteer Fire Company Inc.  
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Mr. Edward V. Grant Jr.  
Chief Examiner  
Division of Local Government  
and School Accountability  
110 State Street  
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Mr. Grant,

This letter is in response to the exit brief on February 20<sup>th</sup>, 2013 concerning the findings and recommendations stated in the audit report 2013M-17. The Monterey Volunteer Fire Co. Inc. is in full agreement and acceptance of the findings and extends our gratitude for the extensive audit of financial records and are genuinely impressed with the professionalism and diligence of the Senior Examiner as well as assisting staff.

The Monterey Volunteer Fire Co. Inc. acknowledges the recommendations from the office of the State Comptrollers office, and that it must initiate a corrective action plan pursuant to New York General Municipal Law: 35 (2)(A).

The Monterey Volunteer Fire Co. Inc. has taken some controls prior to the exit brief, these include:

- Establishing and adopting a Code of Ethics for the Company.
- Canceled all credit/debit cards associated with prior accounts.
- Closed all but one bank account in order to consolidate tracking of funds.  
(a separate account will be opened to keep New York State two percent foreign fire tax monies apart from the primary account).
- Adopted a voucher system to allow accountability for each check written against company funds.
- Conducted extensive inventory for establishing proper protocols involving building and equipment security.
- Contacted insurance company to review and establish proper values of fire equipment.
- Changed local business establishments accounts from charge to check/voucher only.



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The Monterey Fire Co. Inc. Board of directors will be expounding upon these corrections with further additions in our forthcoming Corrective Action Plan.

Please be assured that your office will have our continued full cooperation. And that we stand ready to assist the authorities in the recovery of any missing funds.

Respectfully

James E. Pinkard  
President  
Monterey Volunteer Fire Company Inc.

## APPENDIX D

### AUDIT METHODOLOGY AND STANDARDS

At the entrance conference we were made aware of significant internal control weaknesses and potential misappropriations. We examined internal controls over the Company's financial operations for the period January 1, 2007, through March 13, 2013. The evidence we used during this audit included documentation gathered by subpoena because the former and current Treasurers were not forthcoming with requested documentation. The Board President obtained evidence, such as vendor statements/invoices, for our review. We also conducted the following audit procedures:

- We interviewed Company officials and reviewed Board minutes to gather information about the Company's policies and procedures related to claims processing, cash receipts and disbursements, and Company operations.
- We obtained and reviewed the Company's bank statements, deposit compositions, and canceled checks for the period January 1, 2007, through July 31, 2012 from the Company's bank to determine the cash receipts and disbursements that cleared the bank.
- We obtained and reviewed vendor statements/invoices and interviewed the Board President and Treasurer to determine if claims paid through the Company's bank account to these vendors were proper Company charges. We also met with an employee of one vendor to identify purchases made on the Company's account with the vendor.
- We interviewed the Fire Chief to determine if checks made payable to himself, his father, and their related businesses contained authentic endorsements and were for legitimate Company purposes.
- We performed an analysis of all ATM transactions from the Company's bank account for the period January 1, 2007 through July 31, 2012 to determine if there were correlations between ATM withdrawals, Company bank debit card purchases, and cash deposits into the Treasurer and Fire Chief's personal credit union account.
- We interviewed the Fire Chief to determine if he made purchases for his business on the Company's account to avoid paying sales tax.
- We interviewed the Assistant Bank Manager of the Company's depository to determine the order of events and contacts surrounding the write-off of the Company's bank accounts in December 2011 and the subsequent repayment of debt in January 2012.
- We obtained and reviewed the bank statements, deposit compositions, and canceled checks of the Treasurer and Fire Chief's personal account held at Finger Lakes Federal Credit Union for the period January 1, 2008 through September 30, 2012 to determine if Company funds were deposited into their personal account and if payments/reimbursements were made to the Company and its vendors.

- We obtained written statements from the Treasurer stating that she used Company funds for her and her husband's personal benefit.
- We obtained copies of the Company's budgets and fire protection agreements from the Town of Orange and copies of all the Town's payments to the Company.
- While reviewing the bank statements, we observed excessive payments to a phone company on a monthly basis. Because there were no monthly invoices available for review, we obtained them for our audit period directly from the Company. We compared the Company's monthly phone charges to the payments made by the Company and determined there was \$12,751 in unexplained payments. The Treasurer confirmed that she used Company funds to pay for her family's personal cell phone usage. Because the Treasurer used Company funds to pay for her utilities, we obtained monthly vendor statements for the audit period from the local gas and electric supplier. We also compared the Company's monthly utility charges to the Company's payments and found one payment totaling \$690 was not a Company expense.
- We obtained and reviewed the bank statements, deposit compositions, and canceled checks of the Treasurer's and Fire Chief's personal account held at HSBC for the period December 7, 2006 through March 29, 2009 to determine if Company funds were deposited into their personal account and if payments/reimbursements were made to the Company and its vendors.

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

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