



Almond Volunteer Fire Department Cash Shortage

Report of Examination

Period Covered:

January 1, 2009 — March 13, 2014

2014M-113



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2014

Dear Fire Department 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 Almond Volunteer Fire Department, entitled Cash Shortage. 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 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 Almond Volunteer Fire Department (Department) is located in the Village of Almond (Village) in Allegany and Steuben Counties. The Department provides fire protection and emergency rescue services for Village residents and residents outside the Village pursuant to a contract with the Town of Almond. The Village funds Department operations and provides volunteers with fire equipment, safety gear and a fire house. Department volunteers engage in various fundraising activities to supplement moneys received from the Village and foreign fire insurance proceeds.

The Department, consisting of approximately 25 active members, operates under its own established bylaws. The bylaws establish the governing body with the following positions responsible for Department operations: President, Vice President, Chief, two Assistant Chiefs, Secretary and Treasurer. In addition to Department officials, the Volunteer Ambulance Corps (Corps), a subset of the Department, has a separate set of officers responsible for oversight and financial activity, including a separate Corps Treasurer.

The former Treasurer served from January 1, 2009 through December 31, 2013.

Objective

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

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

Scope and Methodology

We examined internal controls over the Department's financial operations for the period January 1, 2009 through March 13, 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.

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 recommendations and indicated that they plan to initiate corrective action.

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. 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.

Cash Shortage

The governing body is responsible for protecting Department moneys from loss, misuse or abuse by developing and implementing a system of internal controls which provides reasonable assurance that Department resources are adequately safeguarded, and that all financial activities are accounted for properly. The Department's bylaws should provide for policies and procedures relating to control of the Department's assets. Bylaws should also require the Treasurer to periodically reconcile all established bank accounts and report Department activity to the governing board detailing receipts, disbursements, and resulting cash and investment balances in the Department's bank accounts. The governing body should also develop procedures to periodically audit and confirm the Treasurer's work.

It appears the former Treasurer was able to misappropriate approximately \$22,000 from January 2009 through December 2013 without detection by Department officials. In addition, during this period, the former Treasurer was able to process and pay 188 claims totaling approximately \$33,000 without maintaining adequate supporting documentation. While Department officials believe the majority of these payments were for Department expenditures, because proper supporting documentation was not maintained, they could not ensure the validity of these payments. These discrepancies occurred because the Department's governing body did not adequately safeguard Department funds. Specifically, it did not develop and implement adequate internal controls over the Department's cash receipts and disbursements functions and did not annually audit the Treasurer's records from 2009 through 2013. The former Treasurer did not maintain reports of Department financial activities, report to the governing body, or prepare monthly bank reconciliations. OSC's Division of Investigations is referring our audit report to the Allegany and Steuben County District Attorneys for further review.

Cash Receipts

A good system of internal controls over cash receipts ensures that moneys collected are properly recorded, supported and deposited into Department accounts. These controls, at a minimum, should detail what records will be maintained for each Department fundraising activity, who will collect and deposit funds, and the preparation of supplemental activity reports – including profit and loss statements – to determine if the activity is worthwhile for the Department. These controls should also be included in the Department's bylaws so that each person elected to a management position within the Department knows exactly what is expected of them while holding office.

We found that Department officials did not establish adequate internal controls over the cash receipts process, including policies and procedures requiring certain activity records. We examined all 72 deposits¹ made to the checking² account for the audit period, totaling \$67,261, to determine if Department collections from fundraisers were appropriately deposited.

Due to the lack of adequate cash receipts records, we used invoices, deposit compositions and meeting minutes to estimate that approximately \$58,000 was collected and should have been deposited into Department accounts. In addition, checks were written or a withdrawal was made from Department accounts by the former Treasurer – payable to her or her husband – for fundraising startup cash of \$2,220 and prize payout³ cash of \$13,565. We estimated⁴ that \$8,080 in cash was paid out for prizes, leaving \$7,705 that should have been deposited back into Department accounts. However, only \$47,219 was actually deposited, leaving a deposit shortage of more than \$18,000, as shown in Table 1.

Year	Estimated Collections	Start Up and Residual Prize Cash ^a	Expected Deposits	Actual Deposits ^b	Variance
2013	\$11,492	\$1,710	\$13,202	\$10,859	(\$2,343)
2012	\$11,464	\$1,110	\$12,574	\$6,360	(\$6,214)
2011	\$11,702	\$2,245	\$13,947	\$8,334	(\$5,613)
2010	\$11,019	\$680	\$11,699	\$9,603	(\$2,096)
2009	\$12,328	\$1,960	\$14,288	\$12,063	(\$2,225)
Total	\$58,005	\$7,705	\$65,710	\$47,219	(\$18,491)

^a Net of estimated prizes paid out in cash totaling \$8,080
^b Less transfers from Department savings accounts

When we discussed this apparent shortage with Department officials, they indicated that the former Treasurer⁵ admitted to them that she stole money from the Department.

Cash Disbursements

A good system of internal controls over cash disbursements ensures that payments are for valid Department purposes, adequately

¹ Includes \$19,993 of transfer deposits

² Fundraising activity was deposited into the Department’s checking accounts. Review of savings account deposits showed evidence of only annual foreign fire insurance proceeds.

³ A prize payout is cash that was available to pay the prizes, in cash, on the day of the drawing. If the winner was not in attendance, a check would be written for their prize. The cash that was not used to pay prizes should have been deposited back into the Department’s accounts.

⁴ We estimated prizes paid in cash by subtracting the amount of prizes paid by check from the total amount of the prizes.

⁵ Our attempts to contact the former Treasurer were unanswered.

supported by an invoice or receipt, properly recorded and approved by the governing body prior to payment. These controls should be detailed in the Department's bylaws so that each person elected to a position within the Department knows exactly what is expected of them while holding office.

We found that Department officials did not establish adequate internal controls over the cash disbursements process. While Department bylaws state that the Treasurer is responsible for all financial activity, they do not detail the Department's expectations concerning the audit of claims, recording of claims, and information required to be maintained and reported to the governing body. While some payments were approved by the governing body, the former Treasurer was able to process and pay numerous claims without any evidence of governing body oversight or the proper recording these payments.

Due to these weaknesses, we reviewed all 422 payments made by the former Treasurer totaling approximately \$72,000 from January 1, 2009 through December 31, 2013 to determine if they were adequately supported and were for appropriate Department purposes. We found the following:

- For 188 payments totaling \$33,207, there was no adequate supporting documentation for Department officials to ensure they were for legitimate Department expenditures. Department officials believe the majority of these payments were legitimate.
- During 2012, the former Treasurer wrote a check to herself for \$1,500, indicating in the memo line it was for the annual dinner. However, no receipts were available to support disbursements for that purpose. Six checks totaling \$1,309 were also written for the annual dinner expenses, for a grand total of \$2,809. Checks in payment of annual dinner expenses in the other years during our audit period ranged from \$1,157 in 2013 to \$1,591 in 2010. Therefore, we question whether the \$1,500 was used for the annual dinner expenses and, if not, this would increase the shortage amount, as listed in Table 2.
- Twenty-four checks were missing and did not clear the bank as completed transactions or were not included in Department records as voided checks.

In addition, we also found a \$2,000 withdrawal was made from the Department's savings account during 2011, but was not deposited into another Department bank account and lacked an apparent Department

purpose. This unsubstantiated withdrawal increases the amount of the shortage, as listed in Table 2.

Deposit Shortage	\$18,491
Unsubstantiated Check for 2012 Annual Dinner	\$1,500
Unsubstantiated Withdrawal	\$2,000
Total	\$21,991

Because the governing body failed to adopt adequate internal controls over the cash receipts and disbursements functions, the former Treasurer was apparently able to misappropriate approximately \$22,000 in Department funds without detection by Department personnel. This is equivalent to the gross revenue of Department volunteers selling⁶ approximately 2,750 chicken barbeque dinners. As the Department sells approximately 600 dinners per year, this is equal to about four and one-half years of dinner sales.

Annual Audit

According to the bylaws, an annual audit will be conducted by an audit committee appointed by the President. The Treasurer must provide all records and account information to this committee for audit. The audit should be completed after the December meeting and prior to the February meeting.

Department officials indicated that they had not audited the Treasurer's records from 2009 through 2013. As a result, the apparent misappropriation of Department funds discussed in this report occurred without detection by Department officials.

Recommendations

Department officials should:

1. Take action to recover the missing funds identified in this report;
2. Develop and include internal controls in the Department's bylaws to help ensure that all cash receipts – including fundraising receipts – are properly recorded, accounted for and deposited;
3. Develop and include internal controls in the Department's bylaws to help ensure that all cash disbursements are approved prior to payment and supporting documentation is properly maintained and
4. Annually audit the Treasurer's records, as required in the Department's bylaws. The completion of this audit should be noted in meeting minutes.

⁶ Current selling price per full barbeque dinner for the Department is \$8.00

APPENDIX A

RESPONSE FROM DEPARTMENT OFFICIALS

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



ALMOND VOLUNTEER FIRE CO., INC.

AMBULANCE AND RESCUE

ALMOND, NEW YORK 14804



Jeffrey D. Mazula
Chief Examiner of Local Government and
School Accountability
Office of the State Comptroller

July 8, 2014

Almond Volunteer Fire Department
Cash Shortage Report of Examination
Report: 2014M-113

Dear Mr. Mazula

We the Executive Board of the Almond Volunteer Fire Department have meet and reviewed the draft report for the Cash Shortage audit. From our knowledge the board agrees of no inaccuracies in this report or of its findings. The board will also develop and take corrective actions that are required to implement all the recommendations stated in this report. Therefore we the board accept this report as written.

Sincerely,

Julia Ormsby, President
Almond Volunteer Fire Department

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by Department officials to safeguard Department assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. During the initial assessment, we interviewed appropriate Department officials and reviewed available records.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected cash receipts and disbursements for further audit testing. Our audit included various procedures to gather relevant evidence concerning our stated objective, including:

- We reviewed pertinent documents such as the Department's bylaws, meeting minutes, and financial records and reports.
- We met with Department officials to discuss established controls and typical disbursement and fundraising activity.
- To estimate fundraising activity, we determined from Department officials and invoices the number of raffle tickets sold or chickens purchased. In the case of the chicken dinners, Department officials indicated that, during our audit period, all chickens purchased were sold and that approximately 60 percent were sold as a dinner and 40 percent were sold as just chicken. We multiplied the selling prices by the number of tickets sold, or the applicable percentage of chickens available to be sold, to determine the approximate collections from each fundraiser.
- To estimate prizes paid in cash, we subtracted the amount of prizes paid by check from the total amount of prizes.
- We reviewed bank statements and check registers and used the bank statements to compile a complete record of payment transactions.
- For each transaction, whether deposit or disbursement, we reviewed available supporting documentation to determine whether the transaction was valid.
- We requested and reviewed bank deposit compositions for the entire audit period to determine the source of collections and if collections were properly recorded and deposited.
- We traced transfer activity from the two bank savings accounts to the receiving bank accounts during our audit period.

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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