



Bowmansville Volunteer Fire Association, Inc. Financial Management

Report of Examination

Period Covered:

April 1, 2012 – November 7, 2014

2015M-10



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
EXECUTIVE SUMMARY	2
INTRODUCTION	4
Background	4
Objective	5
Scope and Methodology	5
Comments of Company Officials and Corrective Action	5
FINANCIAL MANAGEMENT	6
Misspent or Possibly Misused Funds	7
Oversight of Financial Operations	11
Recommendations	15
APPENDIX A Response From Company Officials	17
APPENDIX B OSC Comments on the Company's Response	23
APPENDIX C Audit Methodology and Standards	24
APPENDIX D How to Obtain Additional Copies of the Report	25
APPENDIX E Local Regional Office Listing	26

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2019

Dear Company Officials:

One important function of the Office of the State Comptroller is to help fire company officials manage company resources efficiently and effectively and, by so doing, provide accountability for money spent to support company operations. The Comptroller oversees the fiscal affairs of fire companies 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 company governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard fire company assets.

Following is a report of our audit of the Bowmansville Volunteer Fire Association, Inc., entitled Financial Management. 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 Company 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Bowmansville Volunteer Fire Association, Inc. (Company) is located in the Town of Lancaster in Erie County and has approximately 88 active members. The Company officers consist of the President, Vice President, Recording Secretary, Corresponding Secretary, Financial Secretary, Treasurer and a five-member Board of Directors (Board).¹ The President presides over Company meetings held for the purpose of transacting business. The Executive Board consists of the Company officers, Line officers² and Constitution Committee Chairperson. For purposes of this report, we will refer to all of these individuals and their various respective roles with the Company as “Company officials.” The individual who served as Treasurer (former Treasurer) during most of our audit period resigned in May 2014³ and the Board subsequently appointed the current Treasurer (current Treasurer) in the same month.

The Company provides fire protection to a portion of a fire protection district located in the Town of Lancaster,⁴ pursuant to a written agreement.⁵ The Town paid the Company approximately \$1.14 million in 2012 and 2013 for fire protection services. The Company also engaged in various fundraising activities during this period.

The Company prepares a budget for firematic⁶ and general expenses each fiscal year.⁷ The Company’s total reported expenses for the fiscal year ended March 31, 2013 were nearly \$1.2 million. Of this amount, firematic expenses were \$999,000 and management and general expenses were \$179,000. The firematic budget is financed with revenue from the fire protection contract, while the general budget is financed with fundraising revenue. The Company contracted with an accounting firm (Firm) to assist with day-to-day recordkeeping and the preparation of checks. The Company also contracted with a certified public accounting firm (CPA) to conduct the statutorily required annual audit of its finances.

¹ Directors are allowed to hold any other office at the same time. Further, the Board appoints one member as Chairman.

² Line officers include the Chief, First Assistant Chief, Second Assistant Chief, Captain, First Lieutenant, Second Lieutenant, Third Lieutenant, Emergency Medical Services (EMS) Captain and EMS Lieutenant.

³ This is the same month our audit engagement letter was issued to the Company.

⁴ The fire protection district excludes the Villages of Lancaster and Depew.

⁵ The contract term was January 1, 2012 through December 31, 2013. Absent written notice to terminate from either party, the agreement is automatically renewed for an additional year.

⁶ Firematic expenses are those directly related to firefighting, such as trucks, equipment, apparatus, etc.

⁷ The Company’s fiscal year is April 1 through March 31.

Scope and Objective

The objective of our audit was to evaluate the Company's financial management for the period April 1, 2012 through November 7, 2014. In certain instances, we found it necessary to extend our review back to January 2008. Our audit addressed the following related question:

- Did Company officials adequately safeguard Company cash assets?

Audit Results

Company officials did not adequately safeguard cash assets. Consequently, the Company made more than \$426,000 in payments for inappropriate and questionable transactions and there is a significant risk that funds were misspent, misused or improper. This included:

- Check payments by the former Treasurer to questionable businesses (\$78,441)
- Debit withdrawals made by questionable businesses (\$67,303)
- Debit charges made by the former Board Chairman, who owned a party supply business (\$41,138)
- Unaccounted-for gun raffle proceeds (\$14,305)
- Unsupported automated teller machine withdrawals by Company officers (\$10,550)
- Questionable debit charges made by party supply businesses (\$6,792).

We also found unsupported and questionable payments that included \$40,730 in unsupported credit card charges for meals (\$8,997), training (\$8,829) and lodging (\$5,096). Moreover, 63 percent of the charges made on the card assigned to the former Fire Chief (\$28,646) were not supported by a receipt or invoice. For example, the former Fire Chief's card had 40 restaurant transactions, totaling \$4,789, that were not supported by a receipt or invoice. Without appropriate documentation confirming that these purchases were for valid Company purposes, the risk exists that they could have been for personal use.

This misuse of Company funds occurred because of inadequate oversight by Company officials and because the former Treasurer circumvented what minimal internal controls were in place. Moreover, Company officials issued inherently high risk debit cards to various officers. The Board did not conduct a comprehensive audit of all the bills prior to payment as required. Furthermore, the former Treasurer did not have canceled checks or check images on file which would allow for a thorough review of disbursements made by check. Company officials also failed to take corrective action in response to a comment in the CPA's management letter regarding controls over disbursements.

Comments of Company Officials

The results of our audit and recommendations have been discussed with Company officials and their comments, which appear in Appendix A, have been considered in preparing this report. Company officials generally agreed with our recommendations and indicated they have, or planned to, initiate corrective action. Appendix B includes our comments on issues raised in the Company's response.

Introduction

Background

The Bowmansville Volunteer Fire Association, Inc. (Company) is located in the Town of Lancaster in Erie County and has approximately 88 active members. The Company officers consist of the President, Vice President, Recording Secretary, Corresponding Secretary, Financial Secretary, Treasurer and a five-member Board of Directors (Board).⁸ The President presides over Company meetings held for the purpose of transacting business. The Executive Board consists of the Company officers, Line officers,⁹ and Constitution Committee Chairperson. For purposes of this report, we will refer to all of these individuals and their various respective roles with the Company as “Company officials.” The individual who served as Treasurer (former Treasurer) during most of our audit period resigned in May 2014¹⁰ and the Board subsequently appointed the current Treasurer (current Treasurer) in the same month.

The Company provides fire protection to a portion of a fire protection district located in the Town of Lancaster,¹¹ pursuant to a written agreement.¹² The Town paid the Company approximately \$1.14 million in 2012 and 2013 for fire protection services. The Company also engaged in various fundraising activities during this period.

The Company prepares a budget for firematic¹³ and general expenses each fiscal year.¹⁴ The Company’s total reported expenses for the fiscal year ended March 31, 2013 were nearly \$1.2 million. Of this amount, firematic expenses were \$999,000 and management and general expenses were \$179,000. The firematic budget is financed with revenue from the fire protection contract, while the general budget is financed with fundraising revenue. The Company contracted with an accounting firm (Firm) to assist with day-to-day recordkeeping and the preparation of checks. The Company also contracted with a certified public accounting firm (CPA) to conduct the statutorily required annual audit of its finances.

⁸ Directors are allowed to hold any other office at the same time. Further, the Board appoints one member as Chairman.

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¹³ Firematic expenses are those directly related to firefighting, such as trucks, equipment, apparatus, etc.

¹⁴ The Company’s fiscal year is April 1 through March 31.

Objective

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

- Did Company officials adequately safeguard Company cash assets?

Scope and Methodology

We examined the Company's financial management for the period April 1, 2012 through November 7, 2014. In certain instances, we found it necessary to extend our review back to January 2008.

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 C 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 A, have been considered in preparing this report. Company officials generally agreed with our recommendations and indicated they have, or planned to, initiate corrective action. Appendix B includes our comments on issues raised in the Company's response.

Company officials have 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 Company to make this plan available for public review.

Financial Management

Company officials have a responsibility to ensure that cash is safeguarded and only used for legitimate Company purposes. Inherent with this responsibility, Company officials should monitor their fiscal practices to ensure that there are adequate internal controls in place.

Company officials did not adequately safeguard cash assets. Consequently, there is a significant risk that funds were possibly misspent, misused or improper. This amount included debit withdrawals (\$67,303) and check payments (\$78,441) to questionable businesses in which there was no evidence that they provided any services to the Company. We also found unsupported and questionable payments to restaurants, grocery stores and office supply companies. Without appropriate documentation confirming that these purchases were for valid Company purposes, the risk exists that they could have been for personal use.

Figure 1: Inappropriate, Questionable and Unsupported Transactions

Debit Charges Made by Questionable Businesses	\$67,303
Checks Paid by the Former Treasurer to Questionable Businesses	\$78,441
Debit Charges Made by the Former Board Chairman	\$41,138
Questionable Debit Charges Made by Party Supply Businesses	\$6,792
Unsupported ATM Withdrawals Made by Company Officers	\$10,550
Unaccounted-for Gun Raffle Proceeds	\$14,305
Checks Prepared by the Firm	\$16,990
Manual Checks Prepared by the Former Treasurer	\$67,647
Debit Payments/Withdrawals	\$34,104
Special Funds Account Disbursements	\$48,719
Credit Card Payments	\$40,730
Total	\$426,719

This misuse of Company funds occurred because of inadequate oversight by Company officials and because the former Treasurer circumvented what minimal internal controls were in place. Moreover, Company officials issued inherently high risk debit cards to various officers. The Board did not conduct a comprehensive audit of all the bills prior to payment as required. Furthermore, the former Treasurer did not have canceled checks or check images on file which would allow for a thorough review of disbursements made by check. Company officials also failed to take corrective action in response to a comment in the CPA's management letter regarding controls over disbursements.

Misspent or Possibly Misused Funds

Company officials must safeguard Company funds against improper use. Debit cards pose significant risks because individuals using them have direct access to the Company's bank accounts and any unauthorized use may not be readily detected. Because debit cards can be used without prior approvals needed for specific expenditures, their use should be carefully monitored.

Payments to Questionable Businesses – Using the former Treasurer's debit card information, questionable businesses made direct debits totaling \$67,303 from the Company's firematic bank account from May 2012 through July 2013. The former Treasurer indicated that he did not know how these transactions occurred. He indicated that he and the Firm were both responsible for detecting the apparently fraudulent transactions.¹⁵

These charges were from businesses that indicated they offered Internet directory listings or search optimization services, but there was no evidence that they ever provided any services to the Company. The bank eventually reversed \$38,817 of these charges, and PayPal¹⁶ reversed one debit for \$1,190. However, because Company officials failed to notify the bank within a timely manner, the bank did not reverse the remaining \$27,296 of direct debits.¹⁷ As a result of this apparent theft, the Company deactivated its debit cards in September 2013.

The Company's attorney indicated that Company officials ultimately decided not to report the debit card theft to law enforcement because they could not identify who was responsible. The attorney also indicated that the perpetrator(s) were likely part of an international criminal organization that he believed could not be held accountable.¹⁸ The attorney indicated that he is relying on the Company's insurance company to investigate this matter.

We identified an additional \$78,441 that was paid by check to the same or similar businesses as we noted in the debit charges testing reported under "Payments to Questionable Businesses." From September 2009 through September 2013, the former Treasurer

¹⁵ The Company's attorney told us the contract with the Firm was terminated because of the Firm's inability to identify the apparent fraud within a timely manner.

¹⁶ An electronic commerce company that facilitates payments between parties through online funds transfers. PayPal allows customers to establish an account on its website, which is connected to a user's credit card or checking account.

¹⁷ The Company filed a claim with its insurance company to reimburse the Company for the remaining \$27,296 of unauthorized direct debit charges. However, the Company has not received any reimbursement as of October 2, 2014.

¹⁸ For further information, see <http://www.business.ftc.gov/documents/0512-small-business-scams>.

manually prepared 99 checks¹⁹ totaling \$78,441 that were payable to suspicious businesses that indicated they provided assistance with updating on-line directory publications or search engine optimization services, but these companies never provided any of these services to the Company. It is unclear whether Company officials, other than the former Treasurer, were aware of these manual check payments, as the minutes kept by the Recording Secretary do not show any Board approvals of these transactions. Further, Company officials did not have on file the original monthly reports provided to them by the Firm around the time of the payments. Also, no purchase approval forms²⁰ were attached to the invoices, and there was no documentation to indicate that the Company ever solicited these services.

The Company paid the \$78,441 to 52 businesses with different names and many claiming to provide the same type of service. The former Treasurer sent multiple letters to many of the businesses indicating that he wanted them to add the Company to their “Do Not Call” list. However, the business would indicate in a correspondence that it would not place the Company on its “Do Not Call” list until the payment was received. The former Treasurer would ultimately make the payment and, in several instances, he would make similar payments for subsequent years after receiving a notice of cancellation. For example, on July 9, 2010, the former Treasurer sent a letter to one of these businesses indicating that there was “no advantage to having a listing under your directory” and that the Company would not renew the listing. The former Treasurer paid this vendor \$520 on July 9, 2010, and received a letter of closure from the vendor. He subsequently paid the vendor seven more times, totaling an additional \$5,350, from August 2010 through August 2012.

We reviewed the endorsement side of 48 check images, which showed that 26 of the businesses with different names and addresses were eventually routed back to a bank located in the Province of Quebec, Canada. This is the same location noted for the fees associated with the debit card transactions for the same or similar businesses. The same person’s endorsement was observed on five checks totaling \$5,794 paid to three different business names.

Questionable Use of Debit Card by Former Board Chairman – From December 2010 through March 2012, there were 64 direct debits paid

¹⁹ All 99 checks were either hand-drawn checks that included the apparent signature of the former Treasurer or checks paid by phone that were processed by the former Treasurer; not by the Firm.

²⁰ The Company was using a purchase approval form in certain instances to document signatures and dates for goods received and inspected, and approval from the Chief, Executive Board and Board. This form also provided a signature location for the former Treasurer to indicate that he received the invoice.

to a local equipment rental business, totaling \$41,138. These charges were associated with a debit card the Company provided to a former Board Chairman. The Company was unable to provide documentation or an explanation for any of these direct debits. According to the current Treasurer, the owner of the rental business told the President that about \$13,000 of the direct debits were incurred by the former Chairman and were related to helium tank rental, filling the tank and insurance charges for the tank. The current Treasurer indicated that the rental equipment business did not have records on file for the remaining debit card charges totaling approximately \$28,000. The Company's attorney told us that Company officials were concerned about these debit charges because, during the time when these debits occurred, the former Chairman owned a business which catered to supplying balloons and party supplies. As a result of our inquiry into these debit charges, Company officials contacted law enforcement and requested a formal investigation of the matter.

We also found 24 questionable direct debits made from the firematic account between June 2010 and March 2012, totaling \$6,792,²¹ mainly to businesses that typically provide party supplies. There was no information on the bank statements to show who made these purchases and Company officials could not provide invoices to indicate what was purchased. Consequently, we were unable to determine what was purchased, who made the purchases, if any officer authorized the purchases and whether these purchases were for legitimate Company purposes.

Unsupported Automated Teller Machine (ATM) Cash Withdrawals – From April 2012 through July 2013,²² officers made 41 ATM withdrawals²³ using their Company debit cards, totaling \$10,995. The bank statements show only the location of the cash withdrawals, not the card used to make the withdrawal. Officials were not able to provide us with supporting documentation for \$10,550 of these transactions. Since these withdrawals lacked appropriate approval and supporting documentation to justify what the cash withdrawals were used for, there is a significant risk that cash withdrawals could have been misused.²⁴

²¹ While most of the charges could be easily identified as relating to party supply stores, it is unclear what two charges totaling \$808 were for.

²² We extended our testing of ATM withdrawals until the debit cards were discontinued in September 2013.

²³ The President confirmed that there was an informal policy limiting each withdrawal to \$300 and requiring prior approval. All of the transactions we identified were \$300 or less.

²⁴ We noted that the Company's debit card activity increased significantly from the 2011-12 fiscal year. In 2011-12, there were 10 ATM transactions totaling about \$2,500. During the 2012-13 fiscal year, there were 27 ATM transactions totaling about \$7,200.

A purchase summary report was required to be completed for each ATM withdrawal. The report required documentation of the card number, date of the transaction, the amount, budget category, card user, a description of the purchase and the person who approved the purchase. Of the 41 ATM withdrawals, there were 10 forms on file stating who made the transaction, date, approval and a description. Nine of these forms showed that the person who approved the transaction was the same individual who made the withdrawal. For the one user who did obtain approval from another officer, the approval was made four days after the transaction was posted to the account. There were only four ATM withdrawals totaling \$445 that were supported by receipts or invoices.

The President and former Treasurer told us that the money was used towards parades or special events and that a receipt was not always made available to them. They also indicated that the money was used as petty cash to fund certain expenses that generally occurred each year. However, Company officials could not provide us with an explanation as to why a purchase summary report, showing prior approval of the expense, was not on file for the majority of the withdrawals.

Gun Raffle Proceeds Shortage – During 2012-13, the Company deposited nearly \$50,000 in the special funds bank account. Fundraising events represent a significant portion of the money that is deposited into this account. While not authorized in the bylaws,²⁵ the former Treasurer indicated that the Chairman of Fundraising is responsible for making deposits into this account.

The Company annually holds a gun raffle and generally sells 500 tickets at a cost of \$20 each. Included in the cost of each ticket is a dinner, beverage and access to the raffles. If all the tickets are sold, the Company would realize \$10,000 in fundraising revenue. In addition to the gun raffle, the Company has floor raffles, including a 50/50 raffle, in an effort to raise additional money.

The Company held a gun raffle in March 2013. According to the 2013 gun raffle report²⁶ and the April 2013 minutes, the event raised \$25,045.²⁷ However, a review of the Company's records and bank statements show that \$9,345 was deposited. If the winner of the 50/50 raffle was paid in cash (\$1,395) and the \$5,000 cash startup money

²⁵ The bylaws indicate that the Financial Secretary is responsible for collections of money and the Treasurer is responsible for bank deposits.

²⁶ Prepared by the Chairman of Fundraising.

²⁷ According to the 2013 gun raffle report, \$10,000 was for ticket sales, \$13,650 was for the floor raffles (which may include the \$5,000 initial cash startup payment) and \$1,395 was for the 50/50 split.

was included in the floor raffle amount, then \$14,305 in gun raffle proceeds are unaccounted for.²⁸

Oversight of Financial Operations

Company officials must provide sufficient oversight to ensure that Company funds are safeguarded. To fulfill this duty, Company officials should provide for the audit and approval of claims prior to payment and ensure compliance with the cash disbursements procedures outlined in the Company bylaws. It is essential that Company officials establish formal written policies and implement procedures for cash disbursements and the use of debit cards. Company officials should also review all debit card transactions to ensure that they are used for appropriate Company purposes.

Audit of Bills – The bylaws require the Board to audit bills and present them to the membership for approval. The bylaws also require the Treasurer to pay all bills after review by the Board and approval by the membership. Done properly, this audit would allow the Board to determine, prior to payment, whether there is appropriate documentation supporting the purchase, such as receipts and invoices, and whether the purchase represents a legitimate Company expense.

The 2012-13 minutes indicate that bills were reviewed and approved by the membership. However, the minutes, kept by the Recording Secretary, do not specify any other detail documenting which bills were approved for payment by the Board. The current Treasurer told us that the Executive Board audits the payments after they are made. The Executive Board is responsible for ensuring that each payment is supported by appropriate documentation, including receipts, invoices and a purchase approval form, indicating that the Board approved the purchase. The Executive Board's post audit of the bills is not defined in the bylaws. Furthermore, the former Treasurer did not have canceled checks or check images on file which would allow the Executive Board to conduct a thorough audit of disbursements made by check. Since canceled checks were not available,²⁹ the Executive Board would need to compare the entries on the bank statements to the check register and supporting invoices to determine whether all payments were supported by appropriate documentation. The Executive Board did not perform these audit procedures.

We reviewed 15 checks prepared by the Firm, totaling \$310,076,³⁰ to determine whether the Board or Executive Board had audited

²⁸ \$25,045 of fundraising revenue less \$9,345 deposited less \$1,395 from the 50/50 split = \$14,305.

²⁹ These were requested and obtained from the bank during our audit.

³⁰ See Appendix C, Audit Methodology and Standards, for details on our sample selection.

the payments. For three checks totaling \$125,240,³¹ there was no evidence that the Board reviewed the supporting documentation prior to payment. Furthermore, 14 checks totaling about \$272,000³² had no evidence that the Executive Board audited the transaction after payment was made.

We also reviewed 15 checks prepared by the former Treasurer, totaling \$114,910,³³ to determine whether the Board or Executive Board had audited the payments. The Company could not locate purchase approval forms for four payments, totaling about \$14,000 and, as a result, there was no evidence of either the Board or Executive Board's review. For seven checks, totaling about \$64,000, there was no evidence that the Board reviewed the supporting documentation prior to payment. Furthermore, 11 checks totaling \$100,859³⁴ had no evidence that the Executive Board audited the transaction after payment was made.

The Company did not have a written policy or procedures governing the preparation of checks by the Firm or the Treasurer. The former Treasurer indicated that, while he was informally required to obtain dual signatures on all checks that were \$500 or more, he did not always comply with this requirement. During 2012-13, the former Treasurer signed 226 checks, totaling \$659,092, prepared by the Firm that were each more than \$500. However, 157 of those checks, totaling \$337,624, were not countersigned by another Company officer. The former Treasurer prepared and signed 96 manual checks, totaling \$190,441, that were each more than \$500; 93 of these, totaling \$150,824, were not countersigned by another Company officer. Had checks been routinely countersigned by another Company officer, he or she may have noted and prevented the questionable payments.

The Company made over \$1.1 million in disbursements during 2012-13; \$266,000 (24 percent) of this amount was not supported with sufficient documentation (Figure 2). This amount includes applicable 2012-13 manual payments, debit card payments and ATM withdrawals that were previously discussed. Company officers could not demonstrate that these purchases were for legitimate Company purposes. For example, over \$44,000 in purchases from restaurants, grocery stores and office supply retailers were not supported by any receipts or invoices.

³¹ Included one totaling \$37,626 that the Executive Board approved.

³² Included two totaling \$87,614 that the Board did not audit.

³³ Ibid

³⁴ Included all seven payments totaling \$64,000 that the Board did not approve prior to payment.

Figure 2: Company Disbursements			
Description	Total	Unsupported	Percentage
Processed Checks Prepared by the Firm	\$622,078	\$16,990	3%
Manual Checks Prepared by the Former Treasurer	\$201,888	\$100,517	50%
Debit Payments/Withdrawals	\$106,931	\$48,744	46%
Special Funds Account	\$83,290	\$48,719	58%
Credit Card Payments	\$78,105	\$40,730	52%
ATM Withdrawals	\$10,995	\$10,550	96%
Total	\$1,103,287	\$266,250	24%

Check Disbursements – Most checks were prepared by the Firm and then returned to the former Treasurer for his signature. From April 1, 2012 through March 31, 2013, the Firm prepared 449 checks, totaling \$622,078. Of those payments, \$16,990, or less than 3 percent, were not supported by an invoice, receipt or other documentation and remain questionable, as the unsupported payments were mostly made to grocery stores (\$10,000), individuals (\$2,800) and a restaurant (\$2,600).

However, from April 1, 2012 through March 31, 2013, the former Treasurer issued 201 manual checks totaling \$201,888. Of those payments, \$100,517, or about half, were not supported by an invoice, receipt or other documentation. Further, \$32,870 of these manual checks were paid to the same vendors that apparently made fraudulent debits on the former Treasurer’s debit card.³⁵ As a result, the remaining \$67,647 of manual checks were issued without supporting documentation and their purpose remains unidentifiable. The former Treasurer indicated that he frequently prepared and signed manual checks to pay vendors when he could not wait for the Firm to prepare a check. Had Company officials monitored and limited the former Treasurer’s preparation of manual checks, they could have ensured that more supporting documentation was available and avoided the questionable disbursements that occurred.

Debit Cards – The President, Fire Chief, former Fire Chief, former Treasurer and former Board Chairman were assigned debit cards. The Company linked its debit cards to auto-deduct from the Company’s main checking account, which at times, held a balance in excess of \$92,000. However, they did not adopt policies and procedures for the use of debit cards or place any spending limits on debit card usage.

³⁵ Discussed in the section titled “Payments to Questionable Businesses.”

Company officials made 310 debit card transactions totaling \$106,931 to the main checking account between April 1, 2012 and March 31, 2013. Company officials were unable to provide us with supporting documentation for transactions totaling \$48,744. However, \$14,640 of these debit payments were related to the possible fraud we discussed previously. As a result, a net total of \$34,104 debit payments remain unsupported and their purpose unidentifiable. Included in the unsupported transactions were charges for restaurants (\$5,273), office supplies (\$5,059) and beverages (\$4,500).

Special Funds Account – The Company maintained a special funds checking account to finance events and special activities that occur throughout the year. During 2012-13, the Company made 68 disbursements from this fund totaling \$83,290. The former Treasurer issued these checks manually. Supporting documentation was not consistently maintained, as the Company failed to provide us with receipts and invoices for 45 disbursements, totaling \$48,719, or 58 percent of the transactions. For example, the Company paid \$9,220 to a gun vendor, \$6,042 to a beverage company and \$2,634 to an individual without any documentation to substantiate what the purchases were for. While the payment to the gun vendor was at about the same time as the gun raffle, without an itemized receipt, we could not confirm that additional purchases were not made from this vendor for personal purposes. We identified 39 manual checks issued during 2012-13, totaling \$77,943, that were each \$500 or more; 34 checks, totaling \$41,928, only contained the former Treasurer’s signature.

Credit Cards – A credit card policy should address the specific circumstances under which cards may be used, including who is authorized to use them, prior approval(s) needed, dollar limits and types of expenses for which they may be used (e.g., travel expenses) and what documentation must be presented to support the claim submitted for audit. The policy should also include procedures for monitoring card use to assess the reasonableness of the nature and number of charges and for promoting accountability and responsibility by outlining the risks, such as liability for damage, loss and/or improper use.

The Company provided credit cards to the President, Fire Chief (both current³⁶ and former), First Assistant Chief, Second Assistant Chief and a volunteer firefighter. However, Company officials did not adopt a written credit card usage policy. During 2012-13, the Company made 13 credit card payments,³⁷ totaling \$78,105, of which 62 transactions

³⁶ As of November 2014

³⁷ The Company made 10 payments by check and three payments electronically.

totaling \$40,730, or 52 percent, were not accompanied with a receipt or other supporting documentation. This amount includes charges for meals (\$8,997), training (\$8,829) and lodging (\$5,096). Moreover, 63 percent of the charges made on the card assigned to the former Fire Chief (\$28,646) were not supported by a receipt or invoice. For example, the former Fire Chief's card had 40 restaurant transactions, totaling \$4,789, that were not supported by a receipt or invoice.

Because the Company failed to provide us with sufficient supporting documentation, we could not verify that the purchases were for a valid Company purpose. Without this documentation, there is a risk that purchases were made for personal use and were not for legitimate Company business. For instance, disbursements³⁸ totaling \$44,000 for purchases from grocery stores, restaurants and office supply retailers during 2012-13 could have been for personal use.

Oversight – We also found additional inadequate oversight by Company officials. The CPA's management letter³⁹ recommended that the Company adopt a formal listing of approved vendors; however, Company officials never implemented this recommendation. Had they taken corrective action and prepared a list of approved vendors and compared it to disbursements, Company officials may have prevented the questionable transactions we identified from occurring.

Recommendations

Company officials should:

1. Determine whether any of the misspent or possibly misused funds can be recovered.
2. Ensure that all fundraising revenue is properly deposited in a timely manner.
3. Ensure that the Board conducts a comprehensive review of bills/invoices before submitting them to the membership for approval.
4. Ensure that the Recording Secretary documents in the minutes what bills were audited by the Board and approved for payment by the membership.
5. Revise the bylaws to clearly define the Executive Board's audit responsibility.

³⁸ Includes checks and credit and debit card charges

³⁹ For the 2011-12 fiscal year

6. Adopt a written policy governing the use of credit cards.
7. Adopt a written policy and written procedures governing the preparation of all checks and consider requiring dual signatures on checks in certain situations.
8. Ensure that the Treasurer maintains canceled checks or check images on file.
9. Implement corrective actions to the findings in the CPA's management letter.

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

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



Bowmansville Volunteer Fire Association

36 Main Street • Bowmansville, New York 14026

Phone (716) 683-0910 • Fax (716) 683-8254

Incorporated 1912

October 2, 2018

VIA EMAIL AND REGULAR MAIL

Mr. Jeffrey D. Mazula, Chief Examiner
Local Government and School Accountability
Office of the New York State Comptroller
c/o Local Government and School Accountability | Buffalo Region
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

ATTN: [REDACTED]

RE: Bowmansville Volunteer Fire Association, Inc. Financial Management Report of Examination
2015M-010

Dear Mr. Mazula:

Thank you for your office's preliminary draft findings ("Report") which was received on September 4, 2018 and the subject of our meeting on September 11, 2018 with your staff. The Report has been reviewed and discussed by the Executive Board and other officers of the Bowmansville Volunteer Fire Association, Inc. (the "Association") following the exit conference with [REDACTED] and [REDACTED] on September 11th.

We are grateful for the professionalism shown by the Comptroller's staff, particular [REDACTED] suggestions and observations for our assuring continued awareness of protection of the Association's financial accountability has been extremely valuable since the field work by your office in the spring and summer of 2014.

We are in agreement with the audit's findings and the Association has implemented measures to improve the Association's management and oversight of the Association's fiscal affairs even prior to the field work commenced by your office on May 27, 2014 and completed in the summer of 2014, and as outlined in your recommendations. We also welcome this opportunity to prepare and present our completed corrective action plan, which provides a detailed account of how we have used the audit findings and recommendations to positively improve operations and internal controls.

For example and as noted at the time of our meeting on September 11, 2018, the Executive Board took aggressive steps immediately upon discovering the theft of funds from the Association's accounts by persons unknown and not affiliated with the Association in March 2013. The theft was reimbursed by the bank which improperly approved the transfer and by the Association's insurance carrier. Moreover, additional fraudulent claims in excess of \$19,000 were successfully challenged by the Association's legal counsel resulting in no loss of funds, including any town contract funds.

See
Note 1
Page 23

It should also be noted that prior to 2013 the Association engaged an accounting firm to assist the then-treasurer and generate reports of all financial activity for the Association for use by the Executive Board. That firm's failure to provide the services promised resulted in the discharge of that firm in September 2013 and the engagement of another firm which has assisted the new treasurer and Executive Board with maintaining scrupulous and detailed financial management of the Association's finances during the five years since discovery of the fraudulent outside theft of Association funds and other matters outlined in the Report.

We are pleased with the OSC's findings that no evidence of any financial improprieties or theft have arisen since the Association implemented those steps in 2013.

See Note 2 Page 23

The Executive Board and other officers have carefully considered the Report as well as each of the recommendations, and believes it is in the best interest of the Association to combine its response with its Correction Action Plan. Accordingly, this audit response is also serving as the Correction Action Plan.

Audit Recommendation #1:

Company officials should: Determine whether any of the possible misappropriated funds can be recovered.

Implementation Plan of Action: Immediately upon discovery of a potential misappropriation as identified by OSC personnel, a complaint was made to the Lancaster Police Department for investigation. We have followed-up with that investigation but, as it is a pending police matter, we have no further information at this time.

Implementation Date: September and October 2014

Person Responsible for Implementation: President and Executive Board

Audit Recommendation #2:

Company officials should: Ensure that all fundraising revenue is properly deposited in a timely manner.

Implementation Plan of Action: By policy of the Association, all fundraising proceeds must be deposited by the responsible Association personnel on the next business day after the fundraising event.

Implementation Date: September 2014

Person Responsible for Implementation: Executive Board, Treasurer and all fundraising committee chairpersons.

Audit Recommendation #3:

Company officials should: Ensure that the Board conducts a comprehensive review of bills/invoices before submitting them to the membership for approval.

Implementation Plan of Action: The Executive Board examines and audits all claims for payment and, upon presentation of the claim with supporting documentation including invoice, voucher, delivery receipt (where applicable) and confirmation that the goods or services in the amount and quantity approved have been received.

Implementation Date: September 2014

Person Responsible for Implementation: Executive Board, Treasurer and all persons responsible for purchasing.

Audit Recommendation #4:

Company officials should: Ensure that the Recording Secretary documents in the minutes what bills were audited by the Board and approved for payment by the membership.

Implementation Plan of Action: The Recording Secretary documents in the minutes of the Executive Board and membership the bills that were examined and audited by the Executive Board and authorized for payment by the membership.

Implementation Date: September 2014

Person Responsible for Implementation: Executive Board, President, Treasurer.

Audit Recommendation #5:

Company officials should: Revise the bylaws to clearly define the Executive Board's audit responsibility.

Implementation Plan of Action: The Bylaws of the Association are being reviewed by the Executive Board and the Association's counsel to clearly define the Executive Board's audit responsibilities.

Implementation Date: Immediately

Person Responsible for Implementation: Executive Board, President, Association's legal counsel and membership.

Audit Recommendation #6:

Company officials should: Adopt a written policy governing the use of credit cards.

Implementation Plan of Action: A credit card policy has been developed with the assistance of the Association's legal counsel covering all credit card issuance and use.

Implementation Date: Immediately.

Person Responsible for Implementation: Executive Board, President, Treasurer.

Audit Recommendation #7:

Company officials should: Adopt a written policy and written procedures governing the preparation of all checks and consider requiring dual signatures on checks in certain situations.

Implementation Plan of Action: The Executive Board developed a written policy and procedures guiding the preparation of all checks issued by the Association. On the advice and directions of our outside auditors, we have adopted a process where every account payable form must contain a signature of a Board member, indicating Board review and approval; the treasurer then signs all checks. However, dual signatures (treasurer and one board member) are required on all checks in excess of \$5,000.

Implementation Date: September 2014

Person Responsible for Implementation: Executive Board, Treasurer.

Audit Recommendation #8:

Company officials should: Ensure that the Treasurer maintains canceled checks or check images on file.

Implementation Plan of Action: The Treasurer maintains either canceled checks or check images of every check issued by the Association and reconciles the same on not less than monthly basis and reports the same to the Executive Board.

Implementation Date: September 2014

Person Responsible for Implementation: Treasurer, Executive Board.

Audit Recommendation #9:

Company officials should: Implement corrective actions to the findings in the CPA's management letter.

Implementation Plan of Action: The Executive Board, President and Treasurer have implemented all corrective actions recommended by the Association's outside auditors.

Implementation Date: September 2014

Person Responsible for Implementation: Executive Board, President, Treasurer.

Again, we wish to thank your team of examiners for their thorough examination of the Association's records and the time spent with Association officials in explaining the audit process and their findings.

Very truly yours,

BOWMANSVILLE VOLUNTEER
FIRE ASSOCIATION, INC.

By: _____
Steven Wik, President

APPENDIX B

OSC COMMENTS ON THE COMPANY'S RESPONSE

Note 1

At the exit conference, Company officials provided us with documentation that appeared to indicate the Company's bank and insurance carrier reimbursed approximately \$67,000, in total, for apparently fraudulent debit charges. However, as of September 11, 2018, the Company did not indicate that it attempted to determine whether any of the other misspent or possibly misused funds identified in this report could potentially be recovered.

Note 2

Our audit identified over \$78,000 in check payments made to questionable businesses through September 2013. Our audit also identified more than \$14,000 in gun raffle proceeds that were unaccounted for during 2013. Furthermore, the scope of our audit concluded on November 7, 2014, and therefore, we cannot confirm that financial improprieties or thefts did not occur after that date.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess whether Company officials properly safeguarded Company cash assets for the period April 1, 2012 through November 7, 2014. In certain instances, we found it necessary to extend our review back to January 2008. Our audit procedures included the following:

- We reviewed Company meeting minutes, bylaws, policies, correspondences, and financial records and reports and the fire protection contract with the Town of Lancaster to gain an understanding regarding the Company's safeguarding of its cash assets.
- We reviewed the annual financial audit report and management letter for the 2011-12 fiscal year to determine whether there were any findings and recommendations related to our audit objective and, if so, whether Company officials implemented any corrective actions.
- We reviewed all of the bank statements in 2012-13 to determine whether there was any indication of unusual activity or high risk transactions as it pertained to debit cards, check payments and credit card activity. We extended our testing back to January 2010 bank statements for debit card activity, January 2008 for check payments and December 2010 for credit card transactions. Examples of unusual activity or high risk transactions as it relates to the Company are cash withdrawals or advances, auto-deduct debit transactions or electronic payments, payments to non-firematic vendors or that could have been for personal use, bank transfers, payments to vendors outside of the United States and similarly recurring payment amounts.
- We reviewed the reported revenues from the 2013 gun raffle with the bank deposits and what was recorded to determine whether the activity was properly accounted for.
- We obtained and reviewed bank statements, canceled check images and check registers, and compiled a more complete record of payment transactions than what the Company had in its records. We did this to determine what amounts and how often certain financial activity was transacted.
- For each payment, whether by credit or debit card transaction or ATM withdrawal, we requested and reviewed any supporting documentation if it was available to us to determine whether the transaction was for a valid Company purpose.
- We selected a judgmental sample of the highest dollar amount of transactions for credit and debit cards and checks to determine whether they were properly authorized and reviewed by the Board and Executive Board.

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.

APPENDIX D

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Andrew A. SanFilippo, Executive Deputy Comptroller
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