

**State of Delaware  
Office of Auditor of Accounts**

---

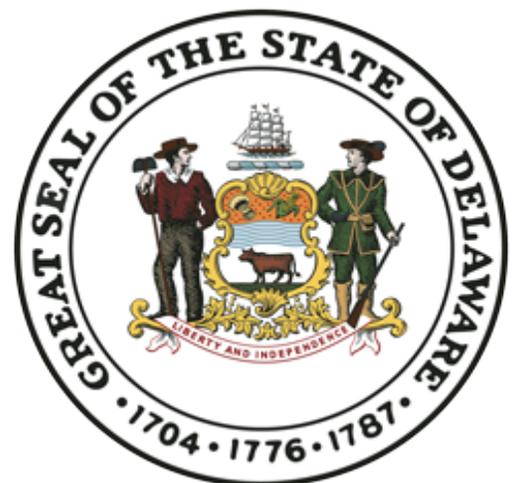
**Belvedere Volunteer Fire Company**

---

**Inspection**

**Issuance Date: September 3, 2015**

R. Thomas Wagner, Jr., CFE, CGFM, CICA  
Auditor of Accounts





**State of Delaware  
Office of Auditor of Accounts  
R. Thomas Wagner, Jr., CFE, CGFM, CICA**

## **At a Glance**

### *Working Hard to Protect YOUR Tax Dollars*

#### **Why We Did This Review**

The Office of the Attorney General (OAG), contacted the Office of Auditor of Accounts (AOA) stating that the OAG obtained evidence implicating the former Chief of the Belvedere Volunteer Fire Company (the Company) of theft during his tenure as Treasurer of the Wilmington Fire Fighters Association.

The OAG investigation found the former Chief forged signatures on a Company check for \$3,724 for personal purchases of furniture and a television.<sup>1</sup>

This inspection was performed in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*.

For further information on this release, please contact:

**Kathleen Davies**

CPA-PA, CISA, CGFM, CGAP, CFE  
(302) 857-3919

#### **What We Found**

The Belvedere Volunteer Fire Company is plagued with mismanagement. During the period of our inspection, we found the Company struggling to pay its bills on such a scale that it puts the mission to protect loss of life and property in jeopardy.

According to the Board of Director's Meeting Minutes from March 2014, the ambulance used to serve the community "has been out of service more than in service." Further, we found an instance where the Company's paid Emergency Medical Technicians did not receive their bi-weekly paychecks for an entire month. Both issues stemmed from the Company's severe financial difficulties.

The Company did not ensure they had a proper accounting system or supporting expenditure documentation for the period under review. During the period January through May 2014, they claimed the accounting records were lost when backing up their accounting software. Correspondingly, they somehow lost or failed to obtain the majority of the supporting documentation for the same period of time. We were able to obtain the bank records directly from the bank and found that more than 78% of the expenditures<sup>2</sup> were never posted to their accounting system for one of the seven accounts alone.

The Company's mismanagement is reflected in Company officials' inability to respond to inquiries and provide documentation during this inspection. Our report provides details of our initial request for records at the opening of our engagement, which the Company could not locate and questioned whether the former external bookkeeper still had them. It took the Company about two months to find and provide us with what little records they maintained. Throughout the inspection, it took Company officials weeks to return phone calls and email inquiries, if responses were received at all.

<sup>1</sup> In conjunction with his theft of over \$22,000 from WFA, the former Chief pled guilty on November 12, 2014, to two counts of theft greater than \$1,500 and one count of 2<sup>nd</sup> degree forgery.

<sup>2</sup> See Failure to Maintain Accounting Records on page 7 of the report for details.

***Table of Contents***

Background	1
Procedures and Results	5

## ***Background***

Belvedere Volunteer Fire Company (the Company), a 501(c)(3) non-profit, non-stock corporation located in Newport, Delaware,<sup>3</sup> receives funding from the State of Delaware (the State), New Castle County, and private contributions. The Company “provides fire prevention, training, Emergency Medical Services (EMS) assistance, and fire suppression services to the residents of the Belvedere community and neighboring communities.”<sup>4</sup>

Article II of the Company’s constitution states: “The purpose of this Company is the mutual protection against the loss of life and property and the promotion of fire prevention to support all activities of the New Castle County Volunteer Fireman’s Association and the Delaware State Volunteer Fireman’s Association.”

### ***Membership and Activities***

Per Company officials, as of April 11, 2015, the Company consisted of 55 volunteer firefighters, 12 paid Emergency Medical Technicians, and 42 auxiliary members.

The Company has a Banquet Hall and Den available to the Community for rent. Events held at the Hall include weddings, family reunions, and private parties.

### ***Demographics***

#### *New Castle County, Delaware*

According to the 2010 Census<sup>5</sup> conducted by the United States Census Bureau, New Castle County had a population of approximately 538,500 residents, with the population estimated to grow to approximately 549,700 residents in 2013. The total land area of the County is 426 square miles.

#### *Newport, Delaware*

The town of Newport, Delaware, had a population of 1,055 in 2010. This is down 6% from the 2000 census total of 1,122.<sup>6</sup>

### ***Governance***

The Company’s By-Laws require annual elections of the following: President, Vice President, Recording Secretary, Financial Secretary, Treasurer, and seven Directors. The Board of Directors and membership appoints the Chief and Deputy Chief each year.<sup>7</sup>

The President presides over all meetings and preserves order, decides questions of order, appoints all committees and delegates, and acts as Chairman of the Executive Committee. The President, jointly with the Treasurer, Vice President, and Financial Secretary, is authorized to sign all checks for the disbursement of money. The President is also responsible for the use and rental of the building, hall, and other properties of the Company and, once a year, calls for an audit of the Company books.

The Chief is first in command at a fire, directing members in firefighting procedures when responding to alarms or when rendering aid to other companies. The Chief’s assistants assume this position in the

---

<sup>3</sup> Belvedere is an unincorporated community in New Castle County, Delaware.

<sup>4</sup> The Company’s reviewed financial statements for the year ended December 31, 2013

<sup>5</sup> <http://quickfacts.census.gov/qfd/states/10/10003.html>

<sup>6</sup> [http://stateplanning.delaware.gov/census\\_data\\_center/2010\\_data.shtml](http://stateplanning.delaware.gov/census_data_center/2010_data.shtml)

<sup>7</sup> The Company’s Constitution states that the Chief and Deputy Chief are appointed by the Board of Directors/Membership in October of each year, and the remaining line officers are appointed in the same manner in November of each year.

Chief's absence. The Chief is also responsible for the use and upkeep of the firefighting equipment and apparatus. The Chief is authorized to make purchases of \$200.00 without prior approval of the Company; any amounts over \$200.00 must be approved before the purchase is made.

The Treasurer is responsible for depositing all monies into a banking institution approved by the Company and shall not pay out any money unless approved to do so. The Treasurer also keeps account of all checks drawn on the treasury and makes a report of all receipts and disbursements at each regular Company meeting.

As of April 28, 2015, the current President is Mr. Robert Johnson. The Company's current Chief is Mr. Bryant Cottman.

### ***State Fire Prevention Commission***

The State Fire Prevention Commission (the Commission) is comprised of seven individuals who are qualified through experience and training. They are tasked to protect the public, specifically those receiving fire prevention services, from unsafe practices. The Commission shall select a Chairperson and Vice Chairperson from among its members and shall hold regular meetings at least once a month. They may also call special meetings as necessary.<sup>8</sup>

The Delaware Code states that the Commission shall establish rules requiring annual financial audits of volunteer fire and ambulance companies. These rules shall address the types of audits required, the reporting periods, procedures for reviewing the audits, and the penalties for non-compliance.<sup>9</sup>

The Commission requires each volunteer fire and ambulance company to obtain a minimum Review<sup>10</sup> level report each year issued by an independent certified public accounting firm. Per the Delaware Administrative Code,<sup>11</sup> the Commission requires the following documentation to be sent to the Commission for their review:

- The Accountant's report provided to the Company by their independent accountant.
- Financial Statements including the following:
  - Statement of financial position (balance sheet)
  - Statement of revenue and expenses (income statement)
  - Statement of cash flow
  - Notes to financial statements
  - Letter of observations and/or comments
  - Letter of representation

---

<sup>8</sup> 16 Del. C. §6601 through 6603

<sup>9</sup> 16 Del. C. §6608(a)

<sup>10</sup> Per the American Institute of Certified Public Accountants, a review provides an independent accountant's report stating that the accountant is not aware of any material modifications that should be made to the financial statements to be in conformity with the applicable financial reporting framework. An audit, however, requires the auditor to obtain an understanding of the entity's internal control and assess fraud risk to provide an opinion that the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.

<sup>11</sup> Delaware Administrative Code, Title 1, Section 708, Chapter 1

*Report Compliance Committee*<sup>12</sup>

The Commission's Report Compliance Committee (the Committee), consisting of at least three members having a professional background that includes auditing and financial experience, reviews the report submissions for compliance with the regulations.

The Committee may require a volunteer fire or ambulance company to submit additional documentation, as necessary. Any Company who fails to submit a report or whose report submission shows financial irregularities or refuses to submit additional requested documentation will be referred to the Commission with a recommendation for a hearing.

**Revenue Sources**

The notes to the Company's reviewed<sup>6</sup> financial statements issued by PKS & Company, P.A. (PKS) describes the Company's revenue sources as State and New Castle County (NCC) appropriations, ambulance service income, and private contributions, as detailed in Table 1 below.

<b>Revenue Description</b>	<b>Source</b>	<b>2013<sup>14</sup></b>
Premium Tax Allocation from Insurance Commissioner's Office	State	\$ 515,862
Grants-in-Aid	State	35,859
Fire Protection	NCC	55,587
Ambulance Service	NCC	55,595
Rescue Service	NCC	27,684
Vending and Other Income	Other	66,475
Ambulance Income	Other	55,847
Rental Income	Other	25,909
Bar Sales	Other	19,613
Auxiliary	Other	8,595
Interest Income	Other	28
Gain on Disposal of Assets	Other	80,061
<b>Total Revenues</b>		<b>\$ 947,115</b>

According to 18 Del. C. c. 7, each volunteer fire company in the State receives an allocation of the "premium tax" paid to the Office of the Insurance Commissioner by insurance companies that sell insurance products to cover risks located in Delaware. These funds "shall be used for assisting and maintaining the fire department or companies of this State."

The breakdown of Grant-in-Aid appropriations for State Fiscal Year Ended June 30, 2014 (Fiscal Year 2014) is provided in Table 2 below. The Company received the same Grant-in-Aid funding for State Fiscal Year 2015.

Grant-in-Aid appropriations include specific restrictions on their use:<sup>15</sup>

- No funds shall be expended in a political campaign or for partisan political purposes.
- No funds may be used to hire lobbyists.
- No funds may be used to pay for child day care.

<sup>12</sup> Delaware Administrative Code, Title 1, Chapter 708, §5.2, Report Compliance Committee

<sup>13</sup> The Company operates on a calendar year ending December 31; however, the State operates on a fiscal year ending June 30.

<sup>14</sup> As of August 25, 2015, the Calendar Year 2014 reviewed financial statements have not been completed.

<sup>15</sup> Fiscal Year 2014 State of Delaware Grant-in-Aid Bill

- No funds may be used for the purchase of capital equipment, relocation, rehabilitation, renovation, or purchase of buildings.

<b>Purpose</b>	<b>Fiscal Year 2014</b>
For extinguishment and prevention of fires throughout the State and for maintenance of apparatus and equipment.	\$ 26,787
For maintenance and operation of ambulances in the public service.	4,536
For maintenance and operation of rescue trucks in the public service.	4,536
<b>Total Grants-in-Aid</b>	<b>\$ 35,859</b>

*New Castle County Funding*

The funds received from New Castle County “assist the volunteer fire companies in providing quality fire protection, emergency medical services and rescue services to residents” of New Castle County.<sup>16</sup>

***Financial Statement Review***

In conjunction with the annual financial statement reviews, PKS issued letters of comments/observations for each of the calendar years ended December 31, 2013, 2012, 2011, and 2010. Observations for 2010 through 2012 were the same:

- PKS proposed several adjusting journal entries that were material, either individually or in the aggregate, to the financial statements taken as a whole, which included:
  - Recording fixed asset additions, disposals, and depreciation expense from information provided by management,
  - Adjusting for allocation of current and long-term portion of long-term debt, and
  - Adjusting beginning net assets to agree with prior year financial statements.
- The Company should review monthly reports provided by the external bookkeeper for guidance in operations and budgeting, as well as correctly recording of income and expense.
- An overall budget for the Company was not available. There were budgets for some departments, but, with the financial difficulties encountered from time to time, a complete budget should be prepared and compared to monthly operating statements prepared by the external bookkeeper.
- There was difficulty in locating various bank statements. At a minimum, copies of the bank statements should be maintained at the Company’s office if the originals are delivered to the external bookkeeper.

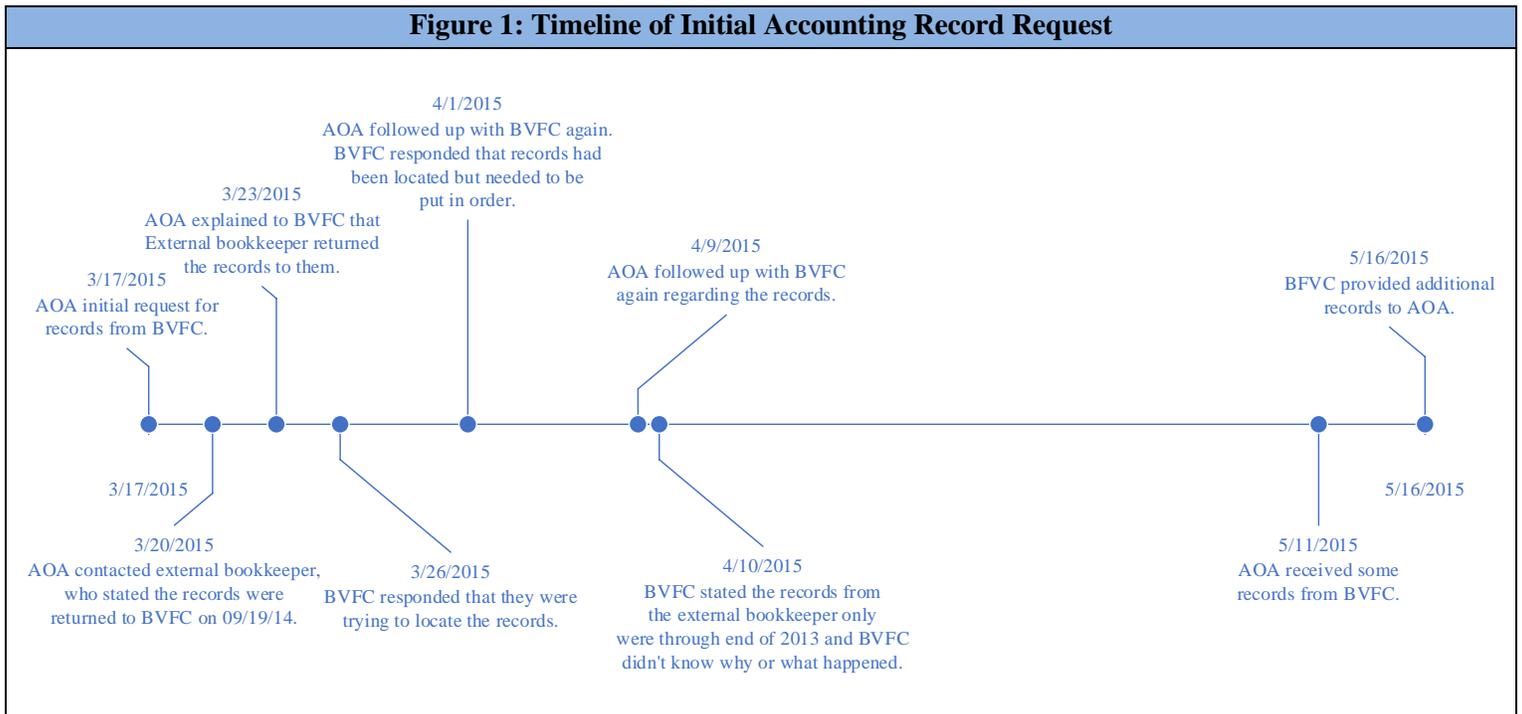
The letter of comments/observations for the year ended December 31, 2013, did not include any of the previous comments. Further, it stated, “We encountered no significant difficulties in dealing with management in performing and completing our review.”

<sup>16</sup> New Castle County Operating Budget Summary for County Fiscal Year Ended June 30, 2014.

## Procedures and Results

The Office of the Attorney General (OAG), contacted the Office of Auditor of Accounts (AOA) notifying us that Vaughn Rider, former Chief of the Belvedere Volunteer Fire Company (the Company), pled guilty on November 12, 2014, to theft related to his tenure as Treasurer of the Wilmington Fire Fighters Association and theft and forgery at Belvedere. As a result, AOA agreed to perform an inspection over the Company’s financial records.

Throughout the engagement, we found the Company unable to respond in a reasonable timeframe. As demonstrated in Figure 1 below, we experienced significant delays in obtaining information from the Company. Delays continued throughout the engagement, including requests for bank account signature cards and a listing of Company-owned vehicles that went unanswered. Further, the Company requested their records be returned on July 30, 2015. AOA spent weeks trying to arrange the return; however, the Company was non-responsive. In the meantime, AOA contacted the company twice regarding meeting to discuss the report but did not receive a response for almost two weeks. This response included yet another request to return the Company’s records, with no acknowledgement of AOA’s previous attempts to return the records.



### Lack of Internal Controls

AOA acknowledges that volunteers, who devote a great deal of time and personal sacrifice, are the backbone of the operation of a modern fire company. We also realize that the operations of the modern fire company are complex, involve a high volume of taxpayer-funded revenue, and are subject to unique job training and capital equipment purchasing and maintenance requirements. Because of this environment, the modern fire company must demonstrate transparency, accountability, efficiency, and effectiveness through written policies and procedures establishing internal control and operational objectives.

We found that the Company does not have any written policies or procedures pertaining to their financial operations. As this report will show, the Company's lack of internal control has a critical impact on the financial management of the Company.

***Delaware Corporate Status***

We confirmed that the Company is delinquent in filing their March 1, 2015, annual report and corporate tax with the Department of State, Division of Corporations. The Division of Corporations has assessed a penalty and interest.

***Board of Director's Meeting Minutes***

We reviewed the Company's Board of Director (the Board) meeting minutes for the period from January 1, 2014 through September 16, 2014<sup>17</sup>. The following are some of the AOA's observations concerning the content and format of the Company's Board meeting minutes:

- The minutes lacked the detail and clarity that is required to make the Board's financial decisions transparent to the reader.
- The minutes indicate that the Company's Board of Directors has not been involved enough with the decisions affecting the Company's financial operations.
- The minutes do not show resolution of issues raised during Board meetings.
- Board members questioning where Company money is being spent and not being aware of the Company's actual spending.
- Statements regarding limited cash flow, poor financial performance, and issues with collection agencies.
- Monthly recurring requests that the Board have the ability to review and approve invoices or bills before they are paid.

The meeting minutes also demonstrated financial difficulties concerning the operation of the Company's ambulance. The minutes suggest that preventative maintenance was not occurring as the ambulance "has been out of service more than in service." Faulty equipment gives cause for serious concerns about the Company's ability to respond to health and safety emergencies.

According to the Article X, Section I, of the Company's By-laws, "Robert's Rules of Order, Revised, shall govern this Company in all cases to which they are applicable..." However, we found instances of significant departures from the format that Robert's Rules of Order Revised<sup>18</sup> establishes for Board meeting minutes including the following:

- The kind of meeting
- The name of the assembly
- The place of the meeting
- The presence of the regular chairman and secretary or the names of substitutes in their absence
- Whether the minutes of the last meeting were approved
- All main motions and points of order and appeals, including what is "done" by the assembly, with vote counts and names of those voting on each side
- The hours of the meeting and adjournment
- Minutes should also be marked as approved with the date of approval

---

<sup>17</sup> We included the Board meeting minutes for September 2014, because of the Board discussions regarding the OAG's investigation of the previous chief, his suspension, and any actions the Board took about the OAG's investigation.

<sup>18</sup> Robert's Rules of Order, Article X, Chapter 60, [www.rulesonline.com](http://www.rulesonline.com)

**Failure to Maintain Accounting Records**

We received the Company's QuickBooks<sup>19</sup> file and, for the period from January 1, 2014 through August 31, 2014, we compared the total amount of checks posted to QuickBooks to those that cleared the bank statement for the Company's main operating checking account, identified as Account 2 below. We found total disbursements posted to the QuickBooks file of \$137,684, while the bank statements showed total disbursements of \$636,867. The Company failed to post \$499,183 in disbursements into their accounting records. Company officials explained that there was a data loss during a QuickBooks software upgrade in 2014. Our review of the QuickBooks file found a gap in transactions between January 1, 2014, and June 18, 2014. The Company's current accounting firm confirmed they knew about the data loss and stated that the firm is currently rebuilding the QuickBooks file in order to complete the Company's Calendar Year 2014 financial statement review. The Company maintained three other checking accounts for Emergency Medical Technicians (EMTs), hall rentals, and bar, and three money market accounts. The bar account and two money market accounts were closed in June 2014.

The Company's QuickBooks records were unreliable, hence, AOA used the Company's bank statements for transaction testing of all seven bank and money market accounts during the period. The Company's records lacked sufficient information to classify the expenditures by type (i.e. payroll, office supplies, utilities, etc.) or to substantiate the propriety of the transactions.

Total bank and money market account expenditures for the period January 1, 2014 through August 31, 2014, are detailed in Table 3 below.

<i>Account</i>	<i>Expenditures</i>
1	\$ 7,209
2	636,866
3	155,871
4	46,092
5	23,302
6	156
7	160
<b>Total</b>	<b>\$ 869,656</b>

Under the circumstances, efforts to reconstruct a complete picture of the finances were futile. Using the records available, AOA focused on the higher risk expenditures made to cell phone and utility companies, apparel and supply vendors, employee reimbursements, atypical vendors, and other transactions that appeared questionable.

**High-Risk Expenditures**

Of the \$869,656 in disbursements above and the credit card activity during the period, we identified \$206,553 in disbursements as high-risk. The results of our testing of the high-risk expenditures are detailed in Table 4 below.

We did not find any expenditure where the Company maintained support and recorded the transaction in QuickBooks.

<sup>19</sup> QuickBooks is accounting software produced by Intuit, Inc.

Source	High-Risk Expenditures		Unsupported Transactions		Not recorded in QuickBooks	
	#	\$	#	\$	#	\$
Bank and Money Market Accounts	52	199,476	36	154,967	34	183,124
Credit Card	15	7,077	15	7,077	15	7,077
<b>Total</b>	<b>67</b>	<b>206,553</b>	<b>51</b>	<b>162,044</b>	<b>49</b>	<b>190,201</b>

### ***Late Payments and Insufficient Funds***

The 16 expenditures from the bank and money market accounts with Company support from Table 4 above, combined with another 10 transactions that AOA was able to obtain support for directly from the vendors, represented payment of 66 individual vendor invoices. Table 5 below provides a breakdown of the timing of payment on those invoices.

Before Due Date	1-2 months late	3-6 months late	> 6 months late	Support Lacked Timing Detail	Total
13	20	18	11	4	66

In one instance, a payment for EMT Recertification Fees to the Delaware State Fire School was almost one year late. For the 49 invoices paid late in Table 5 above, the Company paid an additional \$3,318 in late fees.

We also found the Company made two payments, totaling \$4,099, to pay collection agencies for outstanding balances on two Company credit cards.

Of the payroll processed during the period January 6, 2014 through April 7, 2014, there were 25 payroll checks and payroll service provider payments, totaling \$33,506, that were rejected due to insufficient funds. The Company blamed the outside payroll service provider for the issue, however, it continued once the Company brought the bi-weekly payroll processing in-house in February 2014. In fact, employees did not receive paychecks for the entire month of April 2014.

### ***Payroll***

The previous fire chief, who was the subject of the OAG's investigation, supervised the Company's EMTs and, as such, had considerable control over and access to the Company's EMT checking account, identified as Account 3 in Table 3 above.

During the period of our review, the Company processed payroll both in-house and via two outside payroll service providers. The Company used Paychex, Inc.<sup>20</sup> to process payroll checks dated January 2014 through February 14, 2014. The Company issued internal payroll checks from the EMT checking account using QuickBooks for paychecks dated February 22, 2014 through May 2, 2014. For paychecks dated May 9, 2014 through August 29, 2014, ADP, LLC<sup>21</sup> processed payroll checks for the Company. For all payroll transactions during the period of our review, the Company could not provide any supporting documentation as the Company did not require timesheets and did not maintain any records supporting the number of hours worked or management approval of the payroll.

<sup>20</sup> Paychex, Inc. is a provider of payroll, human resource, and benefits outsourcing solutions for small- to medium-sized business. (Source: <https://en.wikipedia.org/wiki/Paychex>)

<sup>21</sup> ADP, LLC is a provider of business outsourcing solutions. (Source: [https://en.wikipedia.org/wiki/Automatic\\_Data\\_Processing](https://en.wikipedia.org/wiki/Automatic_Data_Processing))

In an effort to ensure no ghost employees were paid during the period January 1, 2014 through August 31, 2014, we provided a list of paycheck recipients to both the current Company President and the current EMT Supervisor. Both Company representatives confirmed all paycheck recipients during that period as Company employees.

***Credit Cards***

The Company did not require the purchaser to retain or present the receipts for those purchases, thereby exempting these purchases from even the basic supporting documentation requirements. During the period of our review, the Company had three credit cards open and active with a combined \$18,000 in available credit. Over the period of our review, the Company made credit card purchases totaling over \$34,400, with an average monthly balance of \$11,428.