

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

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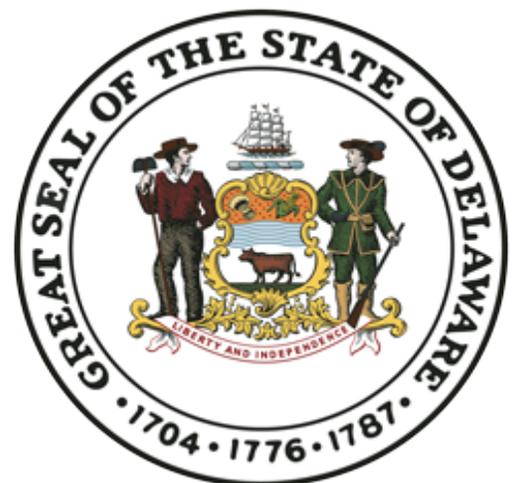
**Marydel Volunteer Fire Company**

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**Inspection**

**Fieldwork End Date: October 15, 2014  
Issuance Date: October 21, 2014**

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**

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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:**

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**Severe Lack of Controls at the Marydel Volunteer Fire Company (the Company)**

The Office of Auditor of Accounts (AOA) received information from individuals close to the Company who requested AOA perform a review over the Company's records. The report is filled with examples of the Company's officials' failure to perform their fiduciary responsibilities.

The Company does not have any written policies and procedures, and exhibited a flagrant disregard for any informal policies in place. Overall, the Company displayed poor controls and mismanagement of their funds, leaving the Company wrought with opportunities for fraud, waste, and abuse.

A heavy cash environment made it difficult to prove that someone directly pocketed money. The Company withdrew \$30,182.73 in cash from June 1, 2013 through May 31, 2014, with inadequate supporting documentation to verify how the funds were used. The Company also persistently used two debit cards without prior approvals and without obtaining and maintaining proper supporting documentation. In April 2014 alone, the Company incurred 35 debt card transactions totaling \$8,140.56.

One member stated that the Company's spending was "out of control." For example, the Company held events for their members during December 2013 and March 2014, that had a documented cost of at least \$25,341.75 and \$38,377.74, respectively. Given the state of disarray at the Company, much more may have been spent on these events. To compound matters, the Company paid \$13,845 to a catering business (*1<sup>st</sup> Due BBQ*) owned by the Treasurer and the Fire Chief, who is also her husband, for their services. Rather than writing checks directly to *1<sup>st</sup> Due BBQ*, the Treasurer wrote checks directly to herself or her husband, or simply withdrew cash. While a portion of the amount paid to the catering business was likely spent on the two parties, no Form 1099-MISC was filed to ensure it was declared as income to *1<sup>st</sup> Due BBQ*.

Nothing in the Company's financial statements indicated the lack of arm's length transactions between the Company and the business owned by Treasurer and the Fire Chief. The lack of transparency is further exacerbated by the absence of catering contracts or evidence of obtaining competitive quotes.

While fire companies in Delaware have proven their strong commitment to the safety and welfare of the community they serve and should certainly be commended for such service. However, their service does not mitigate their fiscal responsibility to taxpayers and the community they serve.

AOA is working with Fire Prevention Commission to encourage fraud and audit referrals as part of the Commission's ongoing monitoring of fire companies.

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## **Background**

The Marydel Volunteer Fire Company (the Company) is a 501(c)(3) non-profit organization located in Marydel, Delaware. They provide fire protection and rescue services to both Kent County in Delaware and Caroline and Queen Anne's Counties in Maryland<sup>1</sup>.

The Company's objective is the prevention and protection of lives and property during fires or emergencies as they may occur<sup>2</sup>. According to Company officials, they respond to approximately 200 fire emergencies and between 400 and 500 ambulance emergency calls per year. Company officials also state they have 15 certified Emergency Medical Technicians (EMTs).

### Membership and Activities<sup>3</sup>

Currently the Company has 86 members from the communities that the Company serves. The Ladies Auxiliary also consists of 14 members.

The Company features a full service banquet hall, the U.L. Harman Memorial Hall, which is available to rent for parties of up to 300 people. The Ladies Auxiliary prepares the meals provided, and the Company's members may serve the events. The Company also hosts several fundraising events in the hall throughout the year.

### Demographics

Table 1 illustrates the demographics according to the 2010 Census conducted by the United States Census Bureau for each county the Company serves.

<b>Table 1: 2010 Census Bureau Demographics</b>			
	Kent County, Delaware <sup>4</sup>	Caroline County, Maryland <sup>5</sup>	Queen Anne's County, Maryland <sup>6</sup>
Approximate Residents in 2010	162,300	33,000	47,798
Estimated Residents in 2013	169,400	32,700	48,517
Approximate land area (square miles)	586	319	372

### Governance<sup>7</sup>

Leadership in the Company is divided into two categories, elected by the Company's membership: Fire Line Officers and Administrative Officers. The Fire Line Officers consist of the Fire Chief, the Deputy Fire Chief, First Assistant Fire Chief, Second Assistant Fire Chief, and Engineer. The Administrative Officers consist of the President, Vice President, Recording Secretary, Treasurer, Fire Recorder, and three Directors.

The President, Vice President, Recording Secretary, Treasurer, three Directors (elected as Administrative Officers), Fire Chief, and Deputy Fire Chief make up the Board of Directors (the Board). The immediate

<sup>1</sup> Information summarized from the Company's website located at <http://www.marydel56.com/>, the notes to the June 30, 2013, financial statements, and information received from an interview with the Treasurer of the Company.

<sup>2</sup> Marydel Fire Company Constitution, Article I, Section 2

<sup>3</sup> Information summarized from the Company's website (<http://www.marydel56.com>) on May 16, 2014, using the Membership, Auxiliary, and Hall Rental links.

<sup>4</sup> Obtained from the United States Census Bureau website (<http://quickfacts.census.gov/qfd/states/10/10001.html>)

<sup>5</sup> Obtained from the United States Census Bureau website (<http://quickfacts.census.gov/qfd/states/24/24011.html>)

<sup>6</sup> Obtained from the United States Census Bureau website (<http://quickfacts.census.gov/qfd/states/24/24035.html>)

<sup>7</sup> Marydel Fire Company Constitution, Article II

former Fire Chief and immediate former Board President shall also serve on the Board, provided they remain members in good standing as prescribed in the Company's By-Laws.

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

State of Delaware Funding

According to 18 Del. C., §705, each volunteer fire company in Delaware receives an allocation of the "premium tax" paid to the Office of the Insurance Commissioner by insurance companies who cover risks of loss on any real or personal property from fire within the State, including commercial and homeowner's policies. Per 18 Del. C., §705 (e), these funds "shall be used for assisting and maintaining the fire department or companies of this State." However, per a Department of Insurance (DOI) employee, they have no regulatory oversight over the funds and do not monitor how the fire companies spend the funds.

The Company received \$312,290 in Fiscal Year<sup>12</sup> 2014 for the Company's share of the statewide, "premium tax" paid to volunteer fire companies.

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<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

<sup>12</sup> Both the State of Delaware and the Company operate on a fiscal year ending June 30.

According to the State of Delaware Fiscal Year 2014 Grants-in-Aid Bill, the Company was directly appropriated \$118,679 in Fiscal Year 2014 for various purposes. Table 2 details the total State of Delaware funding the Company received during Fiscal Year 2014.

<b>Table 2: State of Delaware Funding to the Company during Fiscal Year 2014</b>	
<b>Amount</b>	<b>Purpose of the Funds</b>
	Grants-in-Aid
\$ 26,787	For extinguishment and prevention of fires throughout the State and for maintenance of apparatus and equipment.
4,536	For maintenance and operation of ambulances in the public service.
4,536	For maintenance and operation of rescue trucks in the public service.
35,154	To help level up the insurance premium tax revenues used for the maintenance of apparatus and equipment.
47,666	To provide Insurance Rebate Equalization for operations of volunteer fire companies.
<b>\$ 118,679</b>	<b>Total Grants-in-Aid to the Company in Fiscal Year 2014</b>
312,290	Premium tax allocation from DOI
<b>\$ 430,969</b>	<b>Total State Funds to the Company in Fiscal Year 2014</b>

The Fiscal Year 2014 Grants-in-Aid Bill lists the following restrictions:

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

Additional Revenues

Per the Company’s reviewed financial statements for Fiscal Year 2013, the Company received \$33,158 from Kent County, Delaware, and another \$117,554 from Caroline County, Maryland. The remainder of the Company’s revenue came from donations and internal fundraising (\$8,032), hall rentals (\$41,133), and other miscellaneous sources (\$14,901). As of the date of our inspection, the Company did not have reviewed Fiscal Year 2014 financial statements available.

Federal Grant Funds

We saw no evidence of the Company directly receiving any federal grant funds. However, due to the poor condition of the Company’s records, we are unable to conclusively state that no federal funds were received.

## ***Procedures and Results***

The Office of Auditor of Accounts (AOA) received information from individuals close to the Company who requested AOA perform a review over the Company's records. We found considerable misuse and abuse of Company resources, as evidenced by the examples set forth in this report.

According to the Association of Certified Fraud Examiners (ACFE), "... abuse is defined as, 'behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member of business associate.'<sup>13</sup>

The Company does not have any written policies and procedures pertaining to their operations. According to the Committee of Sponsoring Organizations' (COSO) *Internal Control-Integrated Framework*, "Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance."<sup>14</sup> Numerous interviews with various members of the Company with financial responsibilities revealed the Company does not have any internal controls in place to protect their assets and ensure efficient operations, as evidenced throughout this report.

Our procedures involved some verification of revenue sources; however, our main focus was on the Company's expenditures.

### **Processing Payments**

When the current Company President took office in January 2013, he implemented a voucher system as a way for the Board to approve invoices for payment. The Board President and one Board Director<sup>15</sup> inspect each invoice and approve it for payment by signing a voucher and attaching it to the invoice. Under this policy, the approved invoice and voucher then go to the Treasurer, who enters it into QuickBooks<sup>16</sup> and prints and signs the check for payment. The President provides the second signature on the check and mails it to the vendor. In the event that a check is written prior to obtaining an approved voucher, they may prepare the voucher after the fact and attach it to the invoice.

AOA discovered, however, that the President and the Treasurer have given each other permission to sign their names when they deem it important for a check to be processed immediately, thus usurping the internal control. In addition, the Treasurer gives permission for the Fire Chief, who is also her husband, to sign her name on checks, further diluting the already lenient internal control.

We obtained the Company's QuickBooks file and all invoices files from June 1, 2013 through May 31, 2014, from the Treasurer on June 9, 2014. We reviewed two months' expenditure transactions in detail by examining bank statements and cancelled checks provided directly from the bank and support maintained by the Company, and found numerous instances where expenditures were processed outside the voucher system and never posted to QuickBooks. Table 3 summarizes our detailed review of all expenditure transactions that cleared the bank per the July 2013 and April 2014 bank statements.

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<sup>13</sup> ACFE Fraud Examiners Manual, 2014 US Edition, Pages 4.536 and 4.537.

<sup>14</sup> <http://www.coso.org/documents/Internal%20Control-Integrated%20Framework.pdf>

<sup>15</sup> Per Company officials, the same Board Director approves all vouchers.

<sup>16</sup> QuickBooks is an accounting software produced by Intuit, Inc.

	July 2013		April 2014	
	Number of Transactions	Dollar Value of Transactions	Number of Transactions	Dollar Value of Transactions
Total expenditures reviewed <sup>17</sup>	57	\$ 45,828.88	76	\$ 131,633.82
Lacked signed voucher	35	16,187.08	48	31,290.26
Lacked any supporting documentation (e.g. invoice, receipt)	33	15,547.16	45	23,684.36
Lacked dual signatures on check	-	-	2	2,330.00
Not Posted in QuickBooks	19	8,999.61	43	91,478.39
Service charges and fees	4	83.12	4	161.96

Both the Company President and Treasurer have a debit card for the Company's checking account. The Company incurred 23 and 35 debit card transactions for July 2013 and April 2014, totaling \$3,526.11 and \$8,140.56, respectively. Of all the debit card transactions reviewed during these two months, only one had an invoice on file, and none of the transactions had a Board-signed voucher. These exceptions are also included in the amounts in Table 3.

### **Related Party Transactions**

The Treasurer stated that she and the Fire Chief own a catering business, initially called *S&S Caterers* and then *1<sup>st</sup> Due BBQ*. She also stated that both instances of their business provide catering services to the Company, which they are invoiced for. However, we were unable to locate invoices, and the Company failed to issue any Form 1099-MISC,<sup>18</sup> for *S&S Caterers* or *1<sup>st</sup> Due BBQ*. Further, the Company did not pay either of these businesses directly with a check. Instead, checks were written to the Treasurer and Fire Chief or cash withdrawal slips were labeled with memos indicating "awards dinner." To the best of our ability, we identified that the Company paid at least \$13,845 in cash and checks to the Treasurer and Fire Chief for catering services during the period June 1, 2013 to May 31, 2014. The next two sections of this report provide more information on how *1<sup>st</sup> Due BBQ* spent \$12,250 for the annual *Christmas Party* and \$1,595 for the *Ring Ceremony*. There is insufficient documentation available to substantiate these expenditures as legitimate Company expenses.

According to the ACFE, "A potential conflict of interest exists for employees who make decisions in their jobs that would allow them to give preference or favor to a customer in exchange for anything of personal benefit to themselves or their friends and families."<sup>19</sup>

In addition, the Company pays for a cell phone for the Fire Chief, which is the same number used to conduct business for *1<sup>st</sup> Due BBQ* (see Image 1<sup>20</sup>).

<sup>17</sup> Per the bank statements, there were no cash withdraws or ATM transactions during July 2013 or April 2014.

<sup>18</sup> Per the Internal Revenue Service, a Form 1099-MISC is required for each entity paid during the year who, among other miscellaneous criteria, received at least \$600 in services, prizes and awards, and other income payments.

<sup>19</sup> ACFE Fraud Examiners Manual, 2014 US Edition, page 4.630

<sup>20</sup> The image was extracted from FaceBook on October 1, 2014.



### **Christmas Party**

According to several Company officials, the Company hosts an annual Christmas dinner for its members. Awards for members reaching certain milestones are also distributed at this dinner. This past year, the event was held on December 21, 2013. During the Company's October 2, 2013, Board Meeting, the Board approved the Fire Chief to "oversee and coordinate the banquet" and agreed to use *1<sup>st</sup> Due BBQ* to cater the function.

As part of the \$12,250 paid to *1<sup>st</sup> Due BBQ* for the Christmas party, the Treasurer withdrew \$10,000 in cash for "awards banquet" on December 19, 2013. Upon our request for support on how this cash was spent, the Treasurer provided us with an explanation on *1<sup>st</sup> Due BBQ* letterhead detailing the menu provided and a breakdown of what was included in the \$10,000 cost. These items included *1<sup>st</sup> Due BBQ* staff, bartenders, professional cleaners, and \$3,800 for the purchase of food. However, when we asked for receipts to support the \$3,800, she provided us with a "corrected copy" of the document, stating only \$2,388.79 was spent on food, adding that \$750 in Dover Downs gift certificates were purchased, and she did not have receipts for \$661.21, but "I am sure it was used for this banquet." The revised statement had a note as follows: "...as of this date<sup>21</sup> *1<sup>st</sup> Due* or [the Treasurer] or [the Fire Chief] will not be responsible for the banquet Purchases without a Ways and Means Check and receipt which would be overseen with Ways and Means Chairman."

The Company also paid the Fire Chief with a \$2,250 check for additional Christmas party expenditures. The check was labeled "Bar, Ladies [Auxiliary] gift, cleaning people, [gifts]" but was not supported by an invoice or catering contract.

<sup>21</sup> Corrected statement was dated September 19, 2014; however, it was provided to AOA on September 12, 2014.

Table 4 outlines the known cost of the Company's Christmas party held on December 21, 2013, based on receipts identified. Since there was no tracking mechanism for items used during this event, we are unable to generate an accurate total cost for this event. For example, the Company has a bar inventory on hand and *1<sup>st</sup> Due BBQ* charged for bartending services, but amounts for actual alcohol used was not provided. In addition, the records are in such a state of disorganization that we cannot guarantee all related expenditures have been identified.

<b>Date</b>	<b>Description</b>	<b>Cost</b>
12/18/2013	Sudlersville Meat Locker – chicken breast, bacon, and seafood	\$ 6,579.00
12/18/2013	Check to Texas Roadhouse (Per the Treasurer, the purchase was for \$100 gift cards for “all outgoing/incoming officers”)	2,610.00
12/19/2013	Cash Withdrawal – <i>1<sup>st</sup> Due BBQ Catering Services</i>	10,000.00
12/20/2013	Check to Fire Chief for “Bar, Ladies [Auxiliary] gift, cleaning people, [gifts]”	2,250.00
11/26/2013 12/20/2013	223 Reflective Vehicle Tags for Fire Department, Ambulance, and Auxiliary (Per the Treasurer, for “Xmas Party”), paid in two installments.	1,951.25 1,951.50
<b>Total Identified Cost of Christmas Party</b>		<b>\$ 25,341.75</b>

### **Bonuses**

The Company paid bonuses of \$1,000 to both the Fire Chief and the President of the Board in the days prior to Christmas 2013. However, there is no evidence in Board meeting minutes that the bonuses were approved or discussed with the entire Board of Directors. These transactions also lacked an approved voucher signed by the required members of the Board of Directors. Again, the Company failed to issue a Form 1099-MISC to either party.

### **Ring Ceremony**

The Company hosted a “ring ceremony” for their members on March 8, 2014, that was also catered by *1<sup>st</sup> Due BBQ*. According to the Treasurer, this was a one-time event to “catch up” all members who ever served the Company and provide them with a ring for their service. The Company purchased at least 39 rings totaling \$29,653.83. The cost of the rings ranged from \$298.04 to \$1,508.56, with 11 rings costing over \$1,000 each.

In reviewing the bank statements, we found a \$595 check to the Treasurer and \$1,000 cash withdrawal. As support for both, the Treasurer provided a statement on *1<sup>st</sup> Due BBQ* letterhead labeling these as catering expenses. Again, supporting receipts were not provided.

Similar to the Christmas Party, we were unable to identify all costs associated with the Ring Ceremony, but Table 5 details the receipts we could identify as ceremony expenditures.

<b>Table 5: Ring Ceremony Expenditures</b>		
<b>Date</b>	<b>Description</b>	<b>Cost</b>
02/11/2014	Rings	\$ 27,918.81
02/18/2014	Rings – additional order	828.83
03/03/2014	Check to the Treasurer for “food expense;” Treasurer also provided a statement on <i>1<sup>st</sup> Due BBQ</i> letterhead stating this money was used for catering expenses.	595.00
03/06/2014	Sysco – crab cakes, crab soup, assorted cheese, crackers, mashed potatoes, assorted condiments	3,482.75
03/07/2014	Sudlersville Meat Locker – “filet”	1,351.16
03/07/2014	Cash withdrawal – memo states for “DJ, bartender, caterer;” Treasurer also provided a statement on <i>1<sup>st</sup> Due BBQ</i> letterhead stating this money was used for catering expenses.	1,000.00
03/07/2014	135 hats	2,295.00
04/30/2014	Rings – additional order	906.19
<b>Total Identified Cost of Ring Ceremony</b>		<b>\$ 38,377.74</b>

### **Cash Transactions**

Another way for Company officials to circumvent the voucher system is by the Company President and Treasurer obtaining cash via Automated Teller Machine (ATM) or using a withdrawal slip at the bank. In either instance, cash may be removed from the Company’s account without another party’s approval. Table 6 details cash withdrawals from the Company from June 2013 through May 2014, as identified in their bank statements. The “Purpose” in the table is derived from any handwritten notes on the withdrawal slip or subsequent receipts provided by the Treasurer. There were no receipts or approved vouchers detailing how the cash was spent for any of these transactions in the files we obtained from the Treasurer on June 9, 2014. Further, none of these transactions were recorded in QuickBooks. Other than as discussed elsewhere in the report, and referenced in Table 6, we did not examine the purpose of the withdrawal for accuracy.

<b>Date</b>	<b>Method of Withdrawal</b>	<b>Amount</b>	<b>Purpose</b>
06/18/2013	ATM	\$ 200.00	
08/12/2013	ATM	200.00	
09/03/2013	ATM	200.00	
09/27/2013	ATM	200.00	
12/02/2013	ATM	150.00	
12/19/2013	Withdrawal Slip	10,000.00	<i>1<sup>st</sup> Due BBQ</i> catering services for “awards dinner” (see also page 6 of this report)
01/23/2014	Withdrawal Slip	7,317.07	Transfer to separate bank account for their Maryland appropriations (see also pages 13 and 14 of this report)
02/20/2014	Withdrawal Slip	9,513.66	Cashier’s check to purchase Henny Penny pressure fryer (see also page 9 of this report)
03/10/2014	ATM	200.00	
03/14/2014	ATM	400.00	
03/07/2014	Withdrawal Slip	1,000.00	Per the withdrawal slip, “Service Awards” (see also page 7 of this report)
03/26/2014	Withdrawal Slip	100.00	
05/06/2014	ATM	302.00	
05/07/2014	Branch Withdrawal	400.00	Per the withdrawal slip, “Start-Up Money” (see also page 9 of this report)
		<b>\$ 30,182.73</b>	

The Treasurer stated the \$400.00 cash was withdrawn on May 7, 2014, to purchase “start up” items for a crab feast, which was subsequently deposited with the cash collected during the event. However, per the Company’s events calendar on their website, the crab feast was on June 28, 2014, which is almost two months after the cash withdrawal. This also contradicts the Company’s process for purchasing “start up” items, as described by the current Events Coordinator. The Events Coordinator explained that the Company usually has two bags of cash, one each for the bar and food purchases, that are used to purchase items prior to an event. Each bag is made whole with the money collected by the event, with the excess funds being deposited into the bank. The bags remain on site for future events. However, since receipts were not provided for the \$400.00 purchases, we are unable to verify that these were valid Company expenses.

For the \$9,513.66 withdrawal on February 20, 2014, we viewed the cashier’s check and verified with the vendor that this description was accurate.

We obtained memorandums to the Board for Fiscal Years 2011, 2012, and 2013, where the Company’s external accountant that conducts the annual review of the Company’s financial statements explicitly stated checks should not be written to “Cash” and should be written directly to the vendors. The same approach should apply to cash withdrawals from the bank or an ATM.

While the practice of using cash appears to be a long-standing concern to the Company’s external accountant, this did not change the results of their review. The Independent Accountant’s Review Report for the Fiscal Years ended June 30, 2013 and 2012, states, “Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.” We find this statement misleading based on the volume of errors we have identified throughout this report.

**Deposits**

The Company does not track or give receipts for funds received, which could lead to a misappropriation of assets.

The Company receives money for various purposes, including various State appropriations and:

- Hall rentals
- Fundraisers
- Community donations
- Ambulance billings

This lack of documentation also makes it nearly impossible for the Company to verify that all of the funds collected were properly deposited and credited to their account. In addition, rather than recording a deposit in QuickBooks when it is made at the bank, the Treasurer occasionally enters the deposits as they cleared per the bank's online banking application.

**Automatic Bank Entries**

The Company uses a billing service to collect payments for their ambulance runs. The billing service company provides a claim to the appropriate insurance company or individual, and the proceeds collected are deposited in the Company's bank account. The Company then pays a percentage of the proceeds back to the billing service company as payment for their services, which is automatically debited from their account. While the Treasurer stated that she receives notification from the billing company when deposits are made to the Company's account, she does not verify these amounts were actually deposited into their account. Like all other deposits, the Treasurer records them in QuickBooks periodically from the bank's online banking application. Additionally, the Treasurer was not aware of various automatic payments coming out of the Company's account.

**Annual Bank Reconciliation**

The Treasurer does not perform monthly bank reconciliations. Rather, at the end of the fiscal year, she enters items from the bank statements into QuickBooks if the transaction has not already been recorded. This does not reflect proper accounting, since there may be outstanding items that have not yet cleared the bank but are appropriate revenues and expenditures for the fiscal year. In addition, any error on the bank's part will not be identified timely.

The Treasurer provides a monthly financial update to the Board, including the current bank account balance printed from the bank's online banking application. The update also includes reports from QuickBooks detailing the invoices paid by vendor and deposits made. However, as evidenced by Table 3, there is a high volume of transactions that cleared the bank that were not posted to QuickBooks, and therefore, the update cannot be accurate. This incorrect and incomplete information prevents the Board from making informed financial decisions.

The lack of timely reconciliation has also been an ongoing concern to the Company's external accountant. During Fiscal Year 2012, the accountant issued a memorandum to the Board stating, "Based on the work we had to do to correct the financial statements, we do not believe the Board should place reliance on the books throughout the year."

**Cancelled Checks**

The external accountant's memorandum to the Board for their Fiscal Year 2012 stated, "In order to prevent fraud, the images of the [cancelled] checks should be regularly reviewed by an officer other than the person that reconciles the bank statements." During our fieldwork, we confirmed that the Company continues to receive paperless bank statements and the Treasurer is the only person with online access.

The Treasurer confirmed that she does not print or save these monthly statements, nor does she provide them to the Board.

**Food Inventory**

We found that the company does not utilize an inventory system to track food inventory. The Company purchases food for both internal purposes and for resale through events sponsored by the Company, banquet hall rentals, and community events. The Company immediately expenses all food purchases instead of using appropriate accounting methods of matching expenses to revenues. Therefore, food should be expensed by related event.

The Company also lacked internal records indicating where the food was used. We inspected some of the invoices for food and alcohol purchases, but we could not determine, and Company officials could not tell us, where specific food or alcohol items were used for any of the events held during our review period.

Without reference to any records, the Treasurer provided an impromptu guess that the Company could have approximately \$8,000 worth of food in their freezers and pantry. Also, the Company's bar manager took an inventory after we began our inspection and stated the bar has \$10,000 in inventory at cost.

Beginning February 2014, the Company assigned a new Events Coordinator to manage the paid events held at the Company. During our conversations with him, we observed that he now maintains a binder with all of the details needed to track both the revenues and expenses associated with each event. Documents in the events binder include the signed contract with the client, payments made with the corresponding deposit slip, list of any overhead items used such as plates or napkins, and the event's profit and loss statement. He also uses a program called Aynax<sup>22</sup> to track each event, from scheduling the Hall, developing a menu for each event, and tracking payments made by clients.

Also, beginning in August 2014, the Events Coordinator maintains information for the Company's internal events, such as the annual Christmas party.

**Excessive Food Purchases**

Based on the vendors identified in the bank statements (Chick-Fil-A, Grotto Pizza, Wawa, etc.), we calculated the Company spent \$7,858.45 from June 2013 through May 2014 for food that was not for resale at an event. Of this amount, \$1,807.50 was for vendors that also sold gas, but we could not verify the nature of those expenditures due to insufficient documentation. Although they lacked adequate records, one Company official stated a lot of these expenditures were to buy coffee for the members on an ambulance run or to purchase food for a Company-sponsored training. The Board should assess whether these are all legitimate and reasonable expenditures.

The Company also purchases food for resale at paid events, such as weddings or birthday parties, or Company-sponsored events, such as Wing Night. Wing Night is a fundraising event for the Company where they provide a meal of chicken wings and other sides to the public for an entrance fee. Table 7 summarizes all vendors used to buy food for resale from June 1, 2013 through May 31, 2014. Again, there were not sufficient receipts to verify that each item purchased was for food or related items; however, Company officials stated these vendors were often used for such purposes.

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<sup>22</sup> Aynax is an online invoicing service that allows small businesses to print invoices and tracks income and expenses (<http://www.aynax.com/home-condensed.php>).

<b>Vendor</b>	<b>Amount Expended per Bank</b>	<b>Amount Expended per QuickBooks</b>
Acme	\$ 14.48	\$ 0.00
Byler's Store	178.29	0.00
Coca Cola	1,674.82	1,674.82
Food Lion	393.96	109.72
Redner's Market	1,461.55	0.00
Sam's Club	11,102.86	535.20
Sudlersville Meat Locker	22,982.20	4,988.65
Sysco	42,075.37	42,075.37
Walmart	2,015.74	0.00
	<b>\$ 81,899.27</b>	<b>\$ 49,383.76</b>

The amounts for Sudlersville Meat Locker illustrate the largest discrepancy between the amounts recorded in QuickBooks versus what cleared the bank. For the 15 transactions with this vendor from June 2013 through May 2014, one was a debit card transaction, and 12 were handwritten checks not printed from QuickBooks. For this vendor in particular, the Company President stated that he does not mail the checks; rather, the Fire Chief hand delivers the checks to the vendor.

### **Equipment Inventory**

The Fire Chief estimated the Company has approximately \$3 million worth of equipment, including the fire engines. He also stated that there is equipment issued to each truck and ambulance, as well as equipment issued to each firefighter. However, the Company lacks an inventory system to monitor such equipment. The Fire Chief stated that there is an inventory list on each truck detailing the equipment assigned to each vehicle and an officer is assigned to compare the equipment contained on the truck to the list "every so often."

The Fire Chief matter-of-factly stated that equipment gets lost during a call, as is the case with all fire companies claiming "it's just the nature of the beast." He stated, "I don't care when you go on a fire... guaranteed you're going to be missing a Nomex hood... and guaranteed you're going to be missing gloves, and guaranteed you're going to be missing your PI<sup>23</sup> gloves." The Fire Chief admitted that, during the recent tornado in Marydel, the Company lost three chainsaws. He also said that on a recent call, the Company lost four "Streamlight hand lights" valued at \$1,000 apiece. However, AOA consulted with another firefighting company, and discovered that company generally purchased Streamlight rechargeable flashlights averaging \$100 per light.

During our inquiry of one of the debit card purchases, we discovered the Company spent \$516.41 at www.bigshears.com. While the Company was unable to produce a receipt for this purchase, the Treasurer stated it was the purchase of four "very big, expensive pair[s] of trauma shears ... that's in our ambulance," equating to \$129 for each pair of trauma shears. According to a neighboring ambulance company performing approximately 5,000 ambulance runs per year (as opposed to the Company's 200-300 runs per year), their ambulances carry trauma shears valued at \$6 each.

According to the Treasurer and Fire Chief, however, the Company recently purchased a software program called Red Alert to track both Fire and Emergency Medical Services (EMS) equipment. They were in the

<sup>23</sup> Commonly referred to as "personal injury" (PI) gloves, extrication gloves are more flexible than firefighting gloves but still protect hands against sharp items such as glass or metal while extricating someone from a vehicle accident.

process of taking an inventory and entering all of the members into the system; therefore, it has not yet been implemented.

### **Supplies Shipped to Personal Address**

All purchases for one medical supply vendor were shipped to the Treasurer's personal residence rather than the fire hall. The payments totaled \$14,417.86 from June 2013 through May 2014, and included items such as stethoscopes, disposable rubber gloves, and bandages. The Treasurer is responsible for ordering and receiving the supplies from this vendor, and she is also the director of a group home<sup>24</sup> located directly next to her personal residence. As a result, both the opportunity and perception exist that items purchased by the Company could be used for her group home. By simply having someone other than the ordering party receive and verify the items delivered, the Company can help mitigate this risk.

When we expressed our concern to the Company President, he blamed the shipping companies for leaving their boxes exposed to the elements and available for anyone to pick up. He stated he was "comfortable with it going [to the Treasurer's home] and getting half of whatever it is we're supposed to get, and not having none of it at all when they take it and bring it up there and dump it out at the fire house."

### **Comingling Funds**

The Company comingles the majority of its funding sources into one checking account for their operations, making it impossible to determine if the Company complies with the restrictions placed on each source. Compounding this problem is the lack of knowledge by Company officials regarding the restrictions on the funds they receive from the various sources.

The Company received approximately \$582,000 from state and local governments during Fiscal Year 2014, as detailed in the Background section of this report. Their reviewed Fiscal Year 2013 financial statements revealed that the Company received approximately \$64,000 from donations, hall rentals, and other miscellaneous sources. Since the Company's QuickBooks file is incomplete, as evidenced by Tables 3 and 7, AOA could not generate reliable revenue figures for Fiscal Year 2014.

Due to the comingled funds, AOA is not able to determine if State of Delaware money was used to purchase alcohol. Alcohol is served at the Company functions (including the two awards dinners), and at paid events per a client's request. Total alcohol purchases that cleared the bank from June 2013 through May 2014 are included in Table 6.

<b>Vendor</b>	<b>Amount Expended per Bank</b>
NKS Distributors	\$ 4,052.40
Southern Wine and Spirits	1,989.54
Standard Distributors	2,687.35
United Distributors	3,229.63
	<b>\$ 11,958.92</b>

The Treasurer stated that Maryland requires the Company to have a separate bank account for the funds received from Maryland. We confirmed that the \$7,317.07 cash withdrawal on January 23, 2014 (on page 8 of this report) was in fact deposited into another Company bank account labeled "State Aid 508." We did not, however, review any other transactions associated with that bank account.

<sup>24</sup> Group homes are residential facilities, staffed 24 hours a day by trained caregivers, to serve people with chronic disabilities. The Treasurer's group home provides care and housing for severely disabled adults.

After various discussions with AOA, the Company decided to separate their funds for their State of Delaware money and their internally generated funds. After our explanation, the Treasurer stated she understood that there were buckets of State of Delaware money that needed to be maintained separately in QuickBooks to ensure the funds were spent in accordance with any restrictions imposed on the funds. The two separate bank accounts were established in August 2014.

### **Next Steps**

Despite her representation that she has enough time to perform her Treasurer duties, we identified instances where the Company received notices of disconnection as a result of past due accounts. In 2013, the Company appointed an Assistant Treasurer. However, other than helping the Treasurer a “handful of times” with reading the monthly report at a Board meeting or reading checks aloud for her to enter into QuickBooks, his services have not been utilized. Based on the results of our procedures described throughout this report, the Treasurer should reevaluate the time she devotes to her position.

The Company should also reevaluate the closeness of the relationship between the Fire Chief and the Treasurer. Having two members on the Board who are married to each other creates a greater difficulty in implementing proper segregation of duties. The ACFE states, “Independent nomination of board members is critical to ensure there are no conflicts of interest, to prevent instances of collusion between board members and management, and to make certain that board members have shareholders’ best interests in mind.”<sup>25</sup> It further states, “The crux of fraud prevention rests in the programs, activities, controls, and tone established by management and interpreted and carried out by employees.”<sup>26</sup>

In general, the Company appeared responsive to our conversations regarding events and equipment and understood the importance of maintaining appropriate inventory records. The Company should use caution when processing handwritten checks and make every effort to have all information processed through QuickBooks. Monthly bank reconciliations should aid in maintaining an accurate QuickBooks file. In addition, the Board, in its entirety, should assess each item discussed through this report to determine the best steps the Company should take to mitigate the risks identified.

AOA understands that it may be difficult for small organizations to implement effective internal controls with limited people to perform duties. We commend the volunteers that manage fire companies for their efforts and stewardship, and encourage them to seek appropriate resources to ensure proper controls are in place over taxpayer funds. We are in the process of developing a best practice guide for fire companies to aid in developing sound policies and procedures, and are willing to present an internal controls training for fire companies to strengthen their understanding in this area.

In addition, the Fire Commissioner expressed concern that the Commission has little recourse over the fire companies to ensure proper spending. The accountant’s review reports are also provided to the Fire Prevention Commission, as described in the Background section of this report, but other than requiring a company to receive a standard audit, there is not much the Commission can do to improve a company’s performance. We encourage the Commission to contact AOA with any concerns they may have for our research and reporting, as necessary. In addition, since a review level engagement does not require obtaining an understanding of the entity’s internal control or assessing fraud risk, we recommend that all fire companies receive an audit conducted in accordance with *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States.

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<sup>25</sup> ACFE Fraud Examiners Manual, US Edition, page 4.303

<sup>26</sup> ACFE Fraud Examiners Manual, US Edition, page 4.307