

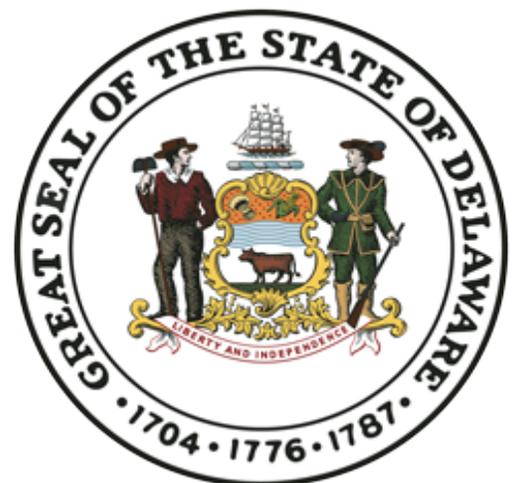
State of Delaware
Office of Auditor of Accounts

Millville Volunteer Fire Company

Inspection

Issuance Date: May 10, 2016
Reissuance Date: June 20, 2016

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

Millville Volunteer Fire Company (MVFC) officials contacted the Office of Auditor of Accounts (AOA) alleging their former Treasurer committed theft during his tenure.

MVFC officials had a meeting with the former Treasurer in May of 2015, where he admitted to the personal transactions.

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:

R. Thomas Wagner, Jr.
State Auditor
r.thomas.wagner@state.de.us
(302) 739-5055

What We Found

Our inspection revealed \$190,433.61 in personal transactions made by the former Treasurer. Of this amount, over \$144,000 were attributable to ATM and cash withdrawals. AOA also found MVFC's accounting records were falsified to conceal the irregularities. MVFC's lack of internal controls had a critical impact on the financial management of the MVFC during the former Treasurer's tenure.

While fire companies in Delaware have proven their strong commitment to the safety and welfare of the communities they serve, their service does not mitigate their fiscal responsibility to taxpayers and donors.

Per the Committee of Sponsoring Organizations of the Treadway Commission *Internal Control - Integrated Framework*, "Internal control provides many benefits to an entity. It provides management and boards of directors with added confidence regarding the achievement of objectives, it provides feedback on how a business is functioning, and it helps to reduce surprises." 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.

Table of Contents

Background	1
Procedures and Results	5

This report was revised to remove Appendix A and reissued on June 20, 2016.

Background

Millville Volunteer Fire Company (MVFC), a 501(c)(4) non-profit, non-stock corporation located in Millville, Delaware,¹ receives funding from the State of Delaware, Sussex County, and the general public. MVFC provides "...fire prevention, training, Emergency Medical Services (EMS) assistance, and fire suppression services to the residents of the Town of Millville and neighboring communities."²

Membership and Activities

Per MVFC's website, as of June 5, 2015, MVFC consisted of 169 volunteer firefighters, 9 paid Emergency Medical Technicians, and 54 ladies auxiliary members.

Demographics

Sussex County, Delaware

According to the 2010 Census³ conducted by the United States Census Bureau, Sussex County had a population of approximately 197,115 residents, with the population estimated to grow to approximately 210,849 residents in 2014. The total land area of the County is 936 square miles.

Millville, Delaware

The Town of Millville, Delaware, had a population of 544 residents in 2010. This is an increase of 110% from the 2000 census total of 259.⁴

Governance

The MVFC is governed by Administrative Officers, Operating Officers, and a Board of Directors. Administrative officers consist of a President, Vice-President, Recording Secretary, Assistant Recording Secretary, Treasurer, Assistant Treasurer, Financial Secretary, Assistant Financial Secretary,⁵ Fire Recorder, and Superintendent of Supplies. Elected Operating Officers consist of the Fire Chief, Chief Engineer, and Fire Police. Other Operating Line Officers, such as the Deputy Chief, Assistant Chiefs (3), Fire/Truck/Rescue/Scuba Captains, Fire/Truck/Rescue/Scuba Lieutenants, Dispatchers (3), Safety Officer, Public Information Officer, and Fire Police Captain, are appointed by the Fire Chief. The Board of Directors consists of six members serving three year staggered terms. The membership elects all Administrative Officers, Operating Line Officers, and Directors annually in December with positions commencing January 1 of each year.

State Fire Prevention Commission

The State Fire Prevention Commission (the Commission), established by 16 Del. C. c. 66, 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 also establish rules requiring annual financial audits of volunteer

¹ The Town of Millville was incorporated in Sussex County, Delaware in 1906.

² MVFC's reviewed financial statements for the year ended December 31, 2013

³ <http://quickfacts.census.gov/qfd/states/10/10005.html>

⁴ https://en.wikipedia.org/wiki/Millville_Delaware

⁵ The Assistant Treasurer and the Assistant Financial Secretary positions were eliminated in November 2015.

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.⁶

The Commission requires each volunteer fire and ambulance company (the Company) to obtain a minimum review⁷ level report each year issued by an independent certified public accounting firm.

Per the Delaware Administrative Code,⁸ the Commission requires the following documentation for its 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

Report Compliance Committee

The Commission's Report Compliance Committee⁹ (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

Per MVFC's reviewed (unaudited) financial statements for the years ended December 31, 2012, 2013, and 2014, MVFC's revenue and support is comprised of revenue from governments (State, Sussex County, and local government appropriations), ambulance service revenue, and contributions as detailed in Table 1 below.

⁶ 16 Del. C. §6608(a)

⁷ 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.

⁸ Delaware Administrative Code, Title 1, Section 708, Chapter 1

⁹ Delaware Administrative Code, Title 1, Chapter 708, §5.2, Report Compliance Committee

Revenue Description	2012	2013	2014
Revenues from governments	\$ 719,740	\$ 695,100	\$ 791,168
Ambulance income	483,541	523,871	562,391
Public support and revenues	384,723	333,883	511,658
Miscellaneous income	-	1,200	7,500
Interest income	1,593	797	682
Total Revenues	\$1,589,597	\$1,554,851	\$1,873,399

As of February 26, 2016, the 2015 review has not been completed.

State Funds

According to detail provided by the State's accounting system, First State Financials (FSF), MVFC's revenue attributable to the State is comprised of appropriated Grants-in-Aid, the "premium tax" allocated to fire companies from the State Department of Insurance (DOI), Ambulance funds, Department of Elections - Sussex County, and State Fire Prevention Commission as detailed in Table 2.

Calendar Year	2012	2013	2014	2015
Grants-in-Aid (see Table 3 below)	\$ 141,130	\$ 142,110	\$ 135,440	\$ 135,440
Department of Insurance Funds	293,426	308,139	307,993	354,757
Ambulance Income	54,055	45,171	41,929	56,335
Department of Elections - Sussex County	900	-	600	-
State Fire Prevention Commission	-	-	-	10,389
Total State Funds	\$ 489,511	\$ 495,420	\$ 485,962	\$ 556,921

Additional details on items from Table 2 are outlined below:

Department of Insurance Funds - 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."¹²

Ambulance Income - Income received from various health insurance companies for the transportation of patients.

¹⁰ MVFC operates on a calendar year ending December 31; however, the State operates on a fiscal year ending June 30.

¹¹ As referenced in the Procedures and Results section of this report, the scope of our procedures was January 1, 2012 through June 30, 2015. Calendar Year 2015 information is presented for comparison purposes only.

¹² 18 Del. C. c. 7

Department of Elections - Sussex County - These funds represent an agreement made between the Department of Elections and MVFC to use the fire station as a polling station.

State Fire Prevention Commission - These funds are provided to volunteer ambulance companies on a proportionate basis across the state based on approved dispatched ambulance runs.

The breakdown of Grant-in-Aid appropriations for Calendar Years 2012, 2013, 2014, and 2015 is provided in Table 3 below.

Grant-in-Aid appropriations include specific restrictions on their use:¹³

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

<i>Purpose</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
For extinguishment and prevention of fires throughout the State and for maintenance of apparatus and equipment	\$ 26,787	\$ 26,787	\$ 26,787	\$ 26,787
For maintenance and operation of ambulances in public service	4,536	4,536	4,536	4,536
For maintenance and operation of rescue trucks in the public service	4,536	4,536	4,536	4,536
For maintenance of aerial or platform trucks and for training of personnel in the techniques of extinguishing high-rise fires	5,292	5,292	5,292	5,292
For maintenance and operation of rescue boats in the public service	3,276	3,276	3,276	3,276
For insurance premium tax revenues	35,154	35,154	35,154	35,154
For insurance rebate equalization	46,686	47,666	40,996	40,996
For operation of substations	14,863	14,863	14,863	14,863
Total Grants-in-Aid	\$141,130	\$142,110	\$135,440	\$135,440

¹³ Fiscal Year 2014 State of Delaware Grant-in-Aid Bill

Procedures and Results

Millville Volunteer Fire Company (MVFC) officials contacted the Office of Auditor of Accounts (AOA) alleging their former Treasurer committed theft during his tenure. MVFC officials had a meeting with the former Treasurer in May 2015, where the former Treasurer admitted to incurring personal transactions.

Jefferson, Urian, Doane, & Sterner, P.A. (JUDS), a certified public accounting firm, performed the annual financial statement reviews for each of the calendar years ended December 31, 2012, 2013, and 2014. As mentioned previously, the difference between a review and an audit is that a review provides substantially less assurance since the evaluation of internal controls and fraud risk is not required. However, in addition to the review reports, JUDS issued management letters to communicate observations and recommendations for strengthening internal controls and operating procedures. Observations and recommendations for all three years were fairly consistent:

- 2012: JUDS suggested creating a due to/from account to track funds transferred between the Fire and EMS companies and completing a monthly reconciliation to zero the accounts. JUDS identified \$17,115 in expenses not accounted for in the general ledger for 2012.
- 2012, 2013, 2014: Additional detail should be entered into QuickBooks¹⁴ indicating what is being purchased.
- 2012, 2013, 2014: A spreadsheet should be maintained to monitor grants that are required to be spent on specific items.
- 2012, 2013, 2014: Payroll wages and taxes should be listed separately when budgeting.

After irregularities were discovered by MVFC officials, the management letter for the year ended December 31, 2014, dated October 20, 2015, identified many more internal control deficiencies including the lack of both segregation of duties and review and oversight functions. The reviewed financial statements also included the following note disclosure, “Note J – Embezzlement: The [MVFC] believes that a former volunteer has misappropriated assets. The [MVFC] is still investigating the matter, but estimates the total to approximate \$195,000.” Based on our procedures, we found substance to the items reported by JUDS as well as additional items presented throughout this report.

Lack of Internal Controls

Throughout our procedures and interviews, we found that MVFC did not have any written policies or procedures pertaining to its financial operations other than the officer position descriptions written in the By-Laws and a Budget Policy. Although the Budget Policy contained sufficient detail regarding the budget process, the By-Laws were not detailed enough to provide adequate guidance to the officials for their day-to-day duties. A common statement made during our interviews was that there was no clear definition of responsibilities or written job descriptions detailing the position duties and internal control procedures.

¹⁴ QuickBooks is accounting software produced by Intuit, Inc.

As this report will show, the MVFC's lack of internal controls has a critical impact on the financial management of the MVFC and led to the former Treasurer's concealment of unauthorized transactions.

Falsified Accounting Records

From January 1, 2012 through June 30, 2015, the former Treasurer was a signer on the bank accounts, prepared checks, collected cash, made deposits, entered transactions into QuickBooks, and prepared reconciliations, which created a severe lack of segregation of duties. Monitoring was insufficient to non-existent. The bank reconciliations were not performed timely¹⁵ and were not reviewed by anyone. Further, budget versus actual reports supplied to department heads did not show transaction details, were in total only, and were rarely questioned. Not all bills and invoices were presented to the membership for approval, including credit card transactions.

The former Treasurer falsified the MVFC QuickBooks records by recording fictitious checks and false deposits, changing or omitting payee information, and miscoding expenditures and revenues. We could not determine the complete picture of QuickBooks errors; however, we identified the following:

<i>Category</i>	<i># of Transactions</i>	<i>Amount</i>
Missing from QuickBooks	33	\$ 33,383.79
Duplicate Postings in QuickBooks	2	4,263.03
Incorrectly entered in QuickBooks ¹⁶	150	73,982.48
Total	185	\$ 111,629.30

Since MVFC's QuickBooks records were unreliable, AOA used statements of all thirteen bank accounts and three credit cards to identify transactions made during the period. While utilizing the bank statements helped to identify transactions, it is impossible to capture certain activity such as cash received from fundraising events.

¹⁵ The June 2014 bank reconciliations were prepared six months later in January 2015.

¹⁶ For example, the vendor name was missing or a different vendor name was entered.

Personal Items

AOA has identified the following personal items as categorized below:

<i>Table 2: Personal Items January 1, 2012 - June 30, 2015</i>		
<i>Description</i>	<i># of transactions</i>	<i>Amount</i>
Personal Purchases	19	\$ 18,051.14
Cash Back on Purchases ¹⁷	15	1,303.05
ATM Withdrawals	67	38,880.00
Cash Withdrawals	34	105,364.47
Checks Payable to the Former Treasurer	20	25,564.95
Cash from Deposit	1	370.00
"Petty Cash" Check	1	500.00
Duplicate Contractor Payments	2	400.00
Total Personal Items	159	\$ 190,433.61

In addition, the financial mismanagement described throughout this report caused MVFC to incur \$2,168.27 in bank charges and fees for overdrafts and insufficient funds.

*Additional Detail on Personal Purchases**Personal Purchases*

Personal purchases we identified included:

<i>Table 3: Personal Purchases January 1, 2012 - June 30, 2015</i>		
<i>Category</i>	<i># of Transactions</i>	<i>Amount</i>
Auto and Marine	6	\$ 6,819.12
Retail	9	3,982.02
Family Law Attorney	4	7,250.00
Total	19	\$ 18,051.14

Additional details on items from Table 3 are outlined below:

Auto and Marine - This category included the following items:

- Four tires on a 2008 Toyota Solara from Sussex Automotive, in Dagsboro, Delaware - \$484.40
- Lift kit plus 4 new tires and rims on a 2006 Dodge Ram 1500 pickup from Trick Trucks in Millsboro, Delaware - \$2,852.95
- Lift kit and accessories on a 2015 Dodge Ram 2500 pickup from Trick Trucks in Millsboro, Delaware - \$859.30

¹⁷ We were unable to identify the exact amount of the cash received back from the transaction. This amount represents the entire amount of the transaction.

- Various boat supplies from Bethany Auto Parts in Ocean View, Delaware - \$401.58
- Winterization of a 21 foot Sea Pro boat from Bob's Marine Service in Clarkesville, Delaware - \$770.89
- Rent for a boat slip from Vines Creek Marina and Tackle in Dagsboro, Delaware - \$1,450.00

MVFC officials confirmed that they do not own these vehicles or boat.

Retail - This category included the following items:

- 28 gauge Remington 870 Wingmaster shotgun (online order) from Richies Pawn and Gun in Picayune, Mississippi - \$800.17
- Rifle case, sweatshirt, ammunition, fishing supplies, T-shirts from Cabela's Retail in Newark, Delaware - \$676.00
- Queen mattress, queen box spring, queen bedliner, full/queen frame from Sleepy's in Millsboro, Delaware - \$1,029.99
- Men's camo Under Armour gloves from Amazon.com - \$29.99*
- Men's Drake Waterfowl jacket from Amazon.com - \$159.99*
- Floating gun case from Amazon.com - \$52.85*
- Drake Waterfowl hunting or fishing boots from Amazon.com \$140.55*
- South Carolina sticker decals from Amazon.com - \$7.48*
- Ducks Unlimited fundraiser auction purchase - \$1,085.00

* During our inspection, we found these five purchases were made by another MVFC official. This official informed AOA that, after he realized he made the purchase with the wrong credit card, he immediately gave the former Treasurer cash to reimburse MVFC for four of the five personal expenditures. However, no receipt was provided to him and AOA could not find the deposit of the reimbursement in the bank statements or MVFC's accounting records. The fifth personal expenditure was discovered as a result of our review. The funds were promptly reimbursed and deposited to MVFC.

Family Law Attorney - The Betts Law Firm confirmed MVFC is not a client. In fact, this firm specializes in family law.

During the period of our review, MVFC had three credit cards open and active with a combined \$14,000 in available credit. Credit cards were issued to three individuals, one being the former Treasurer which accounted for \$10,000 of the available credit alone. Over the period of our review, total credit card purchases on the three cards equaled \$47,917. Until May 2015, credit card transactions were not presented to the members for approval at the bi-monthly company meetings. We included any personal credit card transactions in the personal purchases described above.

Cash Back on Purchases

MVFC officers, including the former Treasurer, had debit cards to access two checking accounts; however, according to information supplied by the respective banks, only the debit cards issued to the former Treasurer had activity. Beginning in the fall of 2013, the debit cards were used more

frequently at gas stations, restaurants, and for online purchases. AOA identified 15 transactions totaling \$1,303.05 where cash back was included in the transaction.

ATM Withdrawals

AOA identified 67 ATM withdrawals of \$38,880 during the period of review, most at \$600 per transaction, with the first withdrawal occurring December 9, 2013, for \$600, and the last occurring on May 5, 2015, for \$1,040 withdrawn from two separate accounts. The former Treasurer was removed from office on May 19, 2015.

Cash Withdrawals

AOA identified three checks payable to "Cash" totaling \$10,875 and 31 withdrawals totaling \$94,489.47 that had no evident purpose for the cash and were not identified in deposits. These checks and withdrawal slips were written, signed, and endorsed by the former Treasurer.

Checks Payable to the Former Treasurer

The payments presented in Table 4 below were checks payable to the former Treasurer and appeared as reimbursements, except for the two dated December 8, 2014. These two payments did not have a memo stating the purpose for the check. MVFC officials could not provide support for any of the transactions but stated they did not authorize and had no knowledge of them. Many of the reimbursements were for the same amount within a one month span.

<i>Table 4: Checks Payable to the Former Treasurer January 1, 2012 - June 30, 2015</i>	
<i>Date</i>	<i>Amount</i>
December 19, 2012	\$ 50.00
October 7, 2013	500.00
October 15, 2013	500.00
October 15, 2013	500.00
October 24, 2013	623.39
November 19, 2013	500.00
November 22, 2013	540.00
December 3, 2013	843.63
December 18, 2013	324.18
December 19, 2013	838.21
December 19, 2013	838.21
January 2, 2014	917.28
January 3, 2014	917.28
January 8, 2014	1,000.00
January 14, 2014	838.21
January 30, 2014	917.28
February 6, 2014	917.28
June 26, 2014	1,500.00
December 8, 2014	3,500.00
December 8, 2014	9,000.00
<i>Totals</i>	<i>\$ 25,564.95</i>

Cash from Deposit

In March 2015, the Financial Secretary gave the former Treasurer the proceeds from a fundraiser to be deposited in the bank. The funds consisted of \$721 in cash and \$1,222.44 in checks. The actual deposit, however, consisted of no cash, the \$1,222.44 in checks, and additional checks totaling \$370 from members purchasing uniform shirts. When the Administrative Assistant confronted the former Treasurer about the discrepancy, the former Treasurer wrote a personal check for \$351 to make the deposit “whole.” However, the deposit was not whole since the original cash was not accounted for and a net difference of \$370 was not deposited to MVFC’s account. AOA attempted to compare other fundraiser reports to the corresponding deposits; however, these reports were not maintained by MVFC.

MVFC held ten chicken dinners during the period of our inspection. MVFC maintained all but two revenue and expenditure reports and presented them at the company meetings. AOA attempted to trace the proceeds of the dinners per these reports to the bank deposit but was unable to do so. The deposits consisted of funds from various sources, some not related to the dinners and some that could not be determined. However, these deposits were incorrectly recorded in QuickBooks representing that the entire deposit was attributed to chicken dinner revenue instead of the true source or purpose. AOA could not determine if the revenues from the chicken dinners were properly deposited to an MVFC bank account.

Signature Discrepancies and “Petty Cash” Check

We identified four checks totaling \$545.45 with signatures that appeared different from the Vice President’s live and stamped signatures. The Vice President examined the signatures on these checks and stated they were not his signature. Three of the checks were for legitimate MVFC business; however, one check for \$500 was marked for petty cash. MVFC officials did not authorize a petty cash fund.

Duplicate Contractor Payments

On July 31, 2012, the former Treasurer resigned from his position because he moved out of MVFC’s jurisdiction. Since a replacement could not be found, MVFC contracted with the former Treasurer to perform the Treasurer duties for \$200 per week. The contract lasted until he was elected back to the Treasurer’s position in January 2014. Initially, the contract payments made to the former Treasurer were paid outside of payroll. In 2013, MVFC began making these payments through a payroll provider and “grossed up” the payments so the net pay was \$200, which conflicts with the contract. Contracted payments made prior to the implementation of the payroll provider were not issued on an IRS Form 1099-MISC for either 2012 (\$4,200) or 2013 (\$1,600).

We identified 26 early payments to the former Treasurer, totaling \$5,200, where the check date was before the pay period ending date. Further, our testing revealed two duplicate \$200 payments made for the weeks ending January 4, 2013 and February 15, 2013.

Other Items

Signature Stamp and Unauthorized Signer

While a paid contractor, the former Treasurer was temporarily removed from the bank accounts as an authorized signer.¹⁸ However, he had possession of the Vice President's signature stamp, which he used to sign checks, including his own. AOA examined copies of 49 cancelled checks, totaling \$31,364.95, payable to the former Treasurer for contract payments and various reimbursements. Only three appeared to have the Vice President's live signature, 23 appeared to be the Vice President's signature stamp, and 23 were signed by the former Treasurer. Of the 23 signed by the former Treasurer, we discovered that he signed four checks before he was added back as an authorized signer.

Unverifiable Purchases

AOA was unable to identify whether an additional 100 transactions totaling \$45,474.01 were for valid MVFC purposes. Conversely, we were unable to obtain sufficient evidence to classify them as personal purchases as they were not definitively personal in nature. Table 5 below illustrates the total amount of unverifiable purchases between January 1, 2012 and June 30, 2015.

<i>Table 5: Unverifiable Purchases January 1, 2012 - June 30, 2015</i>		
<i>Category</i>	<i># of Transactions</i>	<i>Amount</i>
Alcohol	5	\$ 914.87
Auto Maintenance	58	23,403.11
Gas	16	17,074.13
Home Improvement	2	1,018.46
Restaurant	11	1,862.78
Retail	8	1,200.66
<i>Totals</i>	<i>100</i>	<i>\$ 45,474.01</i>

Additional details on items from Table 5 are outlined below:

Auto Maintenance - This category included frequent purchases at Auto Plus & Marine and Bethany Auto Parts.

Home Improvement - This category included purchases at 84 Lumber.

Retail - This category included purchases from Amazon.com, North Bay Marina Inc., and GameStop.

Internal Control Observations Moving Forward

MVFC stated they started making changes to their internal controls in May 2015 when a new Treasurer was elected. For example, at each bi-monthly meeting, all invoices, including credit card

¹⁸ The former Treasurer was not a signer on the bank accounts from August 1, 2012 through March 10, 2013.

statements, are presented to the membership for approval. MVFC has also identified authorized purchasers with certain vendors.

AOA encourages MVFC to update their By-Laws to indicate which positions should be authorized signers on bank accounts and to ensure position duties and responsibilities are properly outlined and segregated.