

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

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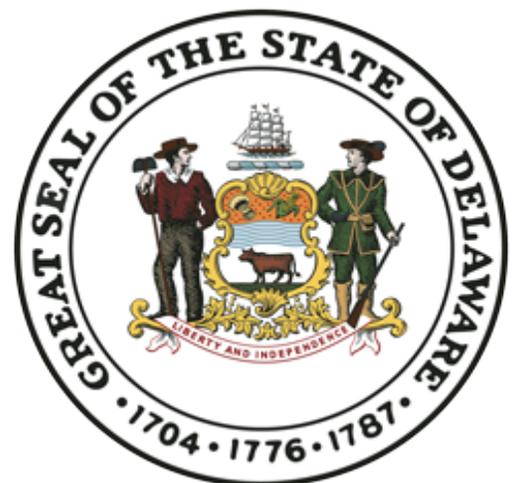
**Gumboro Volunteer Fire Company**

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**Special Investigation**

**Issuance Date: 2/21/2017**

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 Investigation**

Gumboro Volunteer Fire Company (GVFC) officials contacted the Office of Auditor of Accounts (AOA) alleging their former bookkeeper had been issuing unauthorized checks to herself from August 2015 until January 2016.

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

For further information on this release, please contact:

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**What We Found**

Our investigation revealed \$81,000 in unauthorized payments to the former bookkeeper. As of July 11, 2016, the bookkeeper repaid GVFC \$90,000 in cashier's checks, which have been held in trust pending the completion of the investigation. GVFC's lack of internal controls enabled the unauthorized transactions to occur and remain undetected for several months.

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 the fire companies for their efforts and stewardship, and encourage them to seek appropriate resources to ensure proper controls are in place over taxpayer funds.

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## *Background*

The town of Gumboro is a small, unincorporated community located on Route 26 in the southern portion of Sussex County, Delaware.<sup>1</sup> The Gumboro Volunteer Fire Company (GVFC) was established in 1954 as a volunteer non-profit organization. As of June 27, 2016, GVFC had 67 members<sup>2</sup> providing fire prevention and suppression services and emergency rescue and medical operations for the town and surrounding areas.<sup>3</sup>

### *State Funds*

According to detail provided by the State’s accounting system, First State Financials (FSF), GVFC’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), State Bond Bill funds, Ambulance Funds, and Department of Elections – Sussex County as detailed in Table 1.

<b>Table 1: State Funds Received for July 1, 2015 through June 30, 2016 (Fiscal Year 2016)</b>	
	<b>2016</b>
<b>Grants-in-Aid</b>	\$ 112,009.00
<b>Department of Insurance Funds</b>	355,160.21
<b>State Bond Bill - Rescue Tool</b>	7,500.00
<b>Ambulance Funds</b>	55,979.60
<b>Department of Elections-Sussex County</b>	600.00
<b>Total State Funds</b>	\$ 531,248.81

Grants-in-Aid appropriations received by GVFC are to be used for the following:

- Maintenance of apparatus and equipment
- Maintenance and operation of ambulances in public service
- Maintenance and operation of rescue trucks in public service
- Insurance premium tax revenues
- Insurance rebate equalization

The Premium Tax Allocation “...shall be used for assisting and maintaining the fire department or companies of this State...” according to 18 Del. C., §705(e). 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 who cover risks of loss on any real or personal property from fire within the State, including commercial and homeowner’s policies.

<sup>1</sup> Obtained from Wikipedia ([https://en.wikipedia.org/wiki/Gumboro,\\_Delaware](https://en.wikipedia.org/wiki/Gumboro,_Delaware)) on August 2, 2016.

<sup>2</sup> Obtained from the Gumboro Volunteer Fire Company’s website (<http://www.gumborovfc.com/members.cfm>) on August 2, 2016.

<sup>3</sup> Per GVFC 2014 reviewed financial statements.

## ***Procedures and Results***

Gumboro Volunteer Fire Company (GVFC) officials contacted the Office of Auditor of Accounts (AOA) alleging their former bookkeeper stole approximately \$93,000 between August 2015 and January 2016. GVFC officials became aware of the alleged theft upon notification from PNC Bank, one of the GVFC's banking institutions, in January 2016 that the bookkeeper was trying to cash a \$10,000 check. Although GVFC officials confronted the bookkeeper about the unauthorized transactions immediately, the bookkeeper's services were not terminated until April 2016.

### ***Lack of Formal Policies and Procedures and Segregation of Duties***

Through our procedures and interviews, we found that GVFC did not have any written policies or procedures pertaining to its financial operations. In addition, GVFC officials stated they kept pre-signed checks on hand in case they were needed for payroll or other expenses when the authorized signers were unavailable.

GVFC had no segregation of duties surrounding writing checks and performing reconciliations. The bookkeeper, who was responsible for payroll functions, also reconciled the payroll bank account. GVFC's lack of internal controls and segregation of duties enabled the unauthorized transactions to occur and remain undetected for several months.

### ***Unauthorized Transactions***

AOA reviewed 206 transactions totaling \$146,443.41. Through our review, we found 24 checks totaling \$89,000 written to the bookkeeper that cleared the bank during the period July 1, 2015 through June 30, 2016. Of this amount, \$8,000 was found to be legitimate pay for bookkeeping services, and \$81,000 was unauthorized. GVFC officials believe the bookkeeper used the pre-signed checks for the unauthorized transactions. The bookkeeper repaid the GVFC \$70,000 on June 20, 2016, and \$20,000 on July 11, 2016, with cashier's checks. These amounts have been held in trust until the completion of the investigation.

### ***Internal Control Observations Moving Forward***

AOA encourages GVFC to develop written policies describing the processes surrounding financial transactions including deposits, expenditures, transfers, reconciliations, and review procedures. GVFC should stop the practice of pre-signing checks, as this defeats the purpose of assigning check signing authority. GVFC should also ensure adequate segregation of duties exists between check writing and reconciliation of the same bank accounts.