

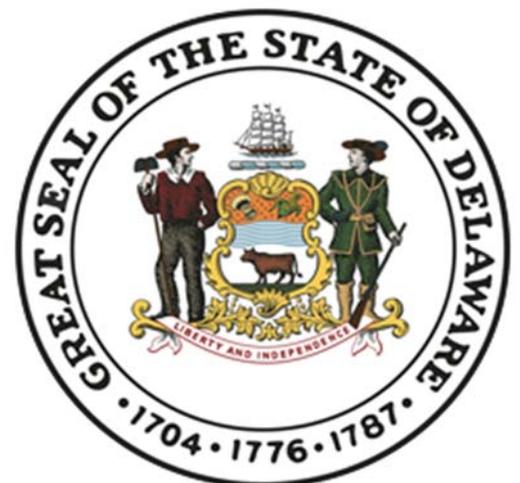
**State of Delaware
Office of Auditor of Accounts**

Mid Sussex Rescue Squad, Inc.

Special Investigation

Issuance Date: March 28, 2018

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

The Office of Auditor of Accounts (AOA) received several allegations of financial misconduct by Mid Sussex Rescue Squad, Inc.'s (the Squad) former Treasurer. Allegedly, the former Treasurer misappropriated approximately \$100,000 from 2011 through 2016.

AOA also received allegations that an employee responsible for payroll processing added employees' families to the health insurance benefit plan at the expense of the Squad instead of following the Squad's policy of paying for employee only coverage.

AOA performed this investigation 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:

R. Thomas Wagner, Jr.
CFE, CGFM, CICA
(302) 739-5055

What We Found

Throughout our investigation, it became apparent that the Squad is an organization that lacks policies and procedures, segregation of duties, and financial oversight, which is also compounded by the Squad's small size. Although the organization serves a vital purpose for the community, the Board of Directors relies on close family and personal relationships to manage the entity. Our investigation revealed the following key discoveries of financial misappropriation, totaling \$119,877:

- The former Treasurer of the Squad initiated a total of \$112,645 of unauthorized cash withdrawal transactions from the Squad's bank accounts.
- One check in the amount of \$5,000 was payable to and authorized by the former Treasurer.
- Debit card transactions, totaling \$1,833, applied to the personal utility accounts of the Squad's President and former Treasurer who were married at the time.
- One unauthorized payment of \$399 was applied to a personal auto loan account in the President's name.

AOA also identified transactions that did not have proper supporting documentation; therefore, we could not determine if the transactions were for the benefit of the Squad. Examples of these transactions include:

- The former Treasurer signed 3 checks totaling \$5,000 made payable to Cash.
- The current President and the former Treasurer signed 1 check payable to Cash in the amount of \$5,000.

Additionally, AOA could not substantiate or refute the allegation pertaining to the employee health insurance benefits due to conflicting guidelines found regarding the Squad's policy.

Prior to the commencement of our investigation, the former Treasurer repaid \$109,630 to the Squad.

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Abbreviations

AOA	Auditor of Accounts
Board	Board of Directors
County	Sussex County
EMS	Emergency Medical Services
Squad	Mid Sussex Rescue Squad, Inc.
State	State of Delaware

Allegations and Results

The Office of Auditor of Accounts (AOA) received complaints that the former Treasurer of Mid Sussex Rescue Squad (the Squad) misappropriated approximately \$100,000 during calendar years 2011 through 2016. The Squad disclosed the misappropriation and subsequent repayment to the State Fire Commission in its June 30, 2016 reviewed financial statements submitted May 10, 2017. The financial statements identified a net total of \$94,500 as misappropriated since September 2011 and disclosed that the previous member subsequently repaid the full amount in March 2017.¹

AOA also received an allegation that an employee responsible for payroll processing added employees' families to the health insurance benefit plan at the expense of the Squad; however, we did not receive any indication of the time frame that this was occurring.

As a result of these allegations, we opened an investigation to inspect the Squad's expenditure and payroll records. In order to encompass all transactions that occurred during the former Treasurer's tenure, we examined records from January 1, 2010 through June 30, 2017.

Control Environment

Policies & Procedures

The Squad could not provide any written policies and procedures for financial processes. Throughout our investigation, we found inconsistencies with the Squad's practices, especially those surrounding check signing. The majority of cancelled checks contained two signatures; however, we observed 40 instances where one or no signature was on the cancelled check. Since the Squad did not provide written policies and procedures, AOA could not determine if requiring two signatures on a check was a policy inconsistently applied or if the Board of Directors (Board) verbally agreed to payment thresholds. In addition, AOA found several instances throughout the years of review where the check signer's signature appeared to differ from the signature card submitted with the bank.

Segregation of Duties & Conflicts of Interest

Based on information we obtained from interviews, there was a severe lack of segregation of duties and conflicts of interest throughout the organization. The former Treasurer was an authorized signer on all of the Squad's bank accounts and maintained the financial records with no oversight from the Board. In addition, like many organizations operated by volunteers, the Squad relies on family and close personal relationships to manage the organization. These relationships include sibling relationships among the current Board President, the former Emergency Medical Services (EMS) Chief, and the Chief Engineer, and personal relationships between members of the Board. Additionally, the current Board President and former Treasurer were married and divorced during the scope of our engagement.

Expenditures

Cash Withdrawals

For the period reviewed, the Squad's bank statements showed 33 cash withdrawals totaling \$228,268. AOA determined 3 cash withdrawals, or \$115,623, were legitimate transactions of the Squad. The former Treasurer initiated the remaining 30 transactions, totaling \$112,645, with no documented purpose for the Squad.

¹ The June 30, 2017 financial statements have not been issued as of the date of this report; therefore, the amounts reported as of June 30, 2016 do not include subsequent transactions.

Payments to Individuals

In addition to normal payroll, the Squad made regular check payments to individuals as a result of a program implemented to help enhance volunteer involvement. The program offers a minimal payment to the first volunteer that responds to a call in a company apparatus. Our review of the Squad’s records identified 282 check transactions payable to individuals and cash that could be payments for this program.

We selected 25 transactions, totaling \$26,459, for inspection. Due to a lack of supporting documentation, we could not confirm the validity of 21 transactions, totaling \$24,980. Of the transactions that lacked supporting documentation, 8 checks, totaling \$10,151, were payable to the former Treasurer. We deemed 1 of these checks, in the amount of \$5,000, as a misappropriation of funds since the check was payable to and signed by the former Treasurer. The remaining seven checks were either signed by a member of the Squad other than the former Treasurer or had two signatures.

Additionally, 4 unsupported checks totaling \$10,000 were payable to Cash: the former Treasurer signed 3 of the 4 checks, and both the former Treasurer and the current President signed the remaining check. Due to the lack of supporting documentation, AOA could not determine if these transactions were for the benefit of the Squad.

Furthermore, within the unsupported transactions, we found 10 instances where the payee’s relative and/or former relative signed the check and 2 instances where the payee signed the check. See Table 1 below for details of the 21 transactions.

Table 1: Unsupported Payments to Individuals					
Payee*	Number of Transactions	Total Amount	Check Signer*	One or More of the Check Signers:	
				Is Related to Payee	Is the Payee
Former Treasurer	5	\$ 4,651	President	X	
Former EMS Chief	1	1,250	Former Treasurer & Member Liaison to the Board	X	
Former Treasurer	1	400	President & Secretary	X	
Former Treasurer	1	100	President & unidentifiable signature	X	
Former EMS Chief	1	60	Former Treasurer & President	X	
President	1	700	President & Former Treasurer	X	X
Former Treasurer	1	5,000	Former Treasurer		X
Cash	3	5,000	Former Treasurer		
Cash	1	5,000	Former Treasurer & President		
Former Career Chief Supervisor	2	1,300	Former Treasurer & Member Liaison to the Board		
Employee #2	1	947	Former Treasurer & President		
Employee #1	1	300	Former Treasurer & President		
Employee #1	1	232	Former Treasurer		
Secretary	1	40	President & Former EMS Chief		
Total	21	\$ 24,980			

*AOA used the Payee and Check Signer titles as of the time of payment. If the term “former” was used the individual no longer serves in any capacity on the Board or as a Line Officer.

Utility Payments

Initially, AOA reviewed 48 out of 517 transactions paid to utility vendors between 2010 and 2017 for supporting documentation and validity of payment. The Squad could not provide supporting documentation for 18 of the 48 transactions selected, or \$6,335 out of \$28,729. Due to several suspicious transactions paid to 4 utility vendors, AOA expanded the review to encompass all 351 payments made to those 4 utility vendors during the period of our review. Neither the Squad nor the utility companies provided supporting documentation for 176 of the transactions; therefore, AOA was unable to determine the validity of these payments totaling \$101,285.

Of the remaining 175 transactions for which the utility vendors provided supporting documentation, AOA found 6 debit card payments totaling \$1,833 that were not for the benefit of the Squad. Five of the payments, totaling \$1,621, were applied between December 2010 and September 2011 to the utility account of the President and former Treasurer whom held the account jointly for their residence until August 2011. The remaining payment of \$212 was applied to the personal account of the former Treasurer in January 2012.

Wire Transfers

AOA reviewed all wire transfers out of the Squad’s bank accounts. We were unable to substantiate the validity of one transfer of \$4,935 for an enclosed utility trailer, due to several discrepancies within the documentation the Squad provided for the purchase. These discrepancies included:

- The invoice was in the name of the Chief Engineer and did not reference the Squad.
- The billing and shipping addresses were to an address unrelated to the Squad.
- The invoice was dated November 30, 2015 and showed that the purchase was paid-in-full. The transfer reviewed by AOA was initiated more than a month after the invoice date.

While the trailer is located at the Squad’s place of business, we were unable to verify ownership of the trailer since it did not have proper title or registration with the State of Delaware (State).

Other Vendor Payments

AOA used data analysis to review the types of vendors and aggregate payments made to each vendor from 2010 through 2017. From this analysis, AOA selected 10 transactions for inspection.

The Squad could not provide supporting documentation for 4 transactions, which totaled \$1,258. However, through other procedures AOA was able to determine that 1 of the 4 transactions, in the amount of \$399, was a payment applied to a personal auto loan held by the President.

Health Insurance

AOA could not substantiate or refute the health insurance allegation due to inconsistent and unclear policies surrounding the employee health insurance benefits. During the inspection of records, AOA found three documents, listed below, that were not only inconsistent in detail but could be open to interpretation.

- ***Employee Manual: Chapter 16, Section D, last revised March 1, 2008***
“The Rescue Squad will provide health insurance after the probationary period. Insurance will be for the employee only. Family members may be included on the policy at the employee’s expense.”
- ***Memo from the Board President, dated December 14, 2012***
“... all full-time paid employees will be responsible to pay 20% of their health insurance cost regardless of what health plan they have or choose. Mid Sussex Rescue Squad will pay the remaining 80% of the cost.”
- ***Board Meeting Minutes, January 2013***
“[The Squad will] temporarily pay 85% for the employee only. The employee will be responsible to pay the remaining 15% of whatever plan they choose.”

In addition to reviewing the Squad’s employee benefit policies, AOA also reviewed the annual payroll summaries and the health insurance provider invoices. All individuals receiving health insurance had a deduction taken out of their paychecks; however, AOA could not confirm the accuracy of the deduction due to the inconsistent employee benefit policies identified above.

Conclusion

Overall, we found a lack of adequate and clearly written policies and procedures, proper segregation of duties, and oversight of financial activities. These factors led to insufficient maintenance of supporting documentation and review of expenditures. The close personal relationships within the Board also created conflicts of interest, as well as the omission of arms-length transactions.

The lack of documentation made it difficult for us to validate expenditures; therefore, we could not determine if the unsupported transactions documented throughout this report were for the benefit of the Squad or if they were in fact misappropriations. Examples of such transactions include unsupported utility payments, checks payable to Cash, and payments to individuals.

Despite these difficulties, AOA found a total of \$117,857 in misappropriated funds that were for the sole benefit of the former Treasurer. We also found additional misappropriations of \$1,621 that were for the benefit of the current President and the former Treasurer’s previous residence, as well as an unauthorized payment of \$399 for the current President’s personal auto loan. Appendix B provides the page references for the misappropriations throughout the report. The Squad was able to recover \$109,630 from the former Treasurer prior to our investigation.

AOA acknowledges the Squad’s cooperation throughout the course of this investigation. We encourage the Squad to develop written policies and procedures for all financial processes, including expenditure approval, check signer guidelines, timely bank reconciliations, and review of banking transactions. The Squad should further ensure documents are maintained so that all deposits and expenditures have adequate supporting documentation, as well as conduct multiple levels of oversight over all processes.

Appendix A: Background

Formed in 1972, the Squad is a 501(c)(4) non-profit, non-stock corporation located in Millsboro, Delaware² that provides ambulance rescue services to all individuals in need. As of August 2017, the Squad operated with 5 Directors, 2 EMS Line Officers, 26 members, numerous full-time and part-time career staff, and a variety of volunteers.

The Squad completed 1,690 emergency runs spanning throughout various areas of Sussex County, Delaware (County) from January 1 through July 31, 2017;³ averaging approximately 241 emergency responses per month.

Revenue Sources

The Squad receives funding from the State, the County, ambulance service insurance proceeds, and donations from the public. Table 2 identifies the income that the Squad received solely from the State for Fiscal Years 2010 through 2017.

Purpose	2010	2011	2012	2013	2014	2015	2016	2017
Grants-in-Aid Bill	\$ -	\$ -	\$ 4,320	\$ 4,536	\$ 4,536	\$ 4,536	\$ 4,536	\$ 4,536
Insurance Premium Taxes	\$ -	\$ -	\$ 54,055	\$ 45,171	\$ 41,929	\$ 56,335	\$ 55,980	\$ 60,509
Ambulance Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,991	\$ 55,268
Other Grants and Income	\$ 3,211	\$ 2,073	\$ 600	\$ -	\$ 1,562	\$ 1,339	\$ 632	\$ 1,190
Total	\$ 3,211	\$ 2,073	\$ 58,975	\$ 49,707	\$ 48,027	\$ 62,210	\$ 104,139	\$121,503

The following are the descriptions and/or requirements of the funds received from the State as identified in Table 2 above:

Grants-in-Aid Bill

The Squad is required to use the appropriations received for the operation and maintenance of the ambulances.

Insurance Premium Taxes

As defined in the Delaware Code,⁵ each volunteer ambulance company and rescue service in the State receives an allocation of the “premium tax” paid to the Office of the Insurance Commissioner by insurance companies on all life and health insurance coverage within the State.

² AOA obtained this information from the Squad’s 2014 IRS Form 990: Return of Organization Exempt from Income Tax.

³ We obtained this information from various areas of the Squad’s webpage at www.midsussexrescuesquad.com.

⁴ AOA created the table from information obtained from First State Financials, the State’s accounting system.

⁵ 18 Del. C. §713(a)(1)

Volunteer Ambulance Company Fund (Ambulance Fund)

The State of Delaware House Bill 315 of the 147th General Assembly established the Ambulance Fund and implemented a \$10 penalty imposed on any violations of Title 21 of the Delaware Code. The State Fire Prevention Commission is responsible for allocating the penalties collected to all of the volunteer ambulance companies within the State based upon the number of runs each company completed.⁶

Other Grants and Income

This includes funds received for Primary and General Election building usage and miscellaneous State grants.

⁶ This information is also documented in 11 Del. C. §4101.

Appendix B: Misappropriation Page Reference

Type	Total	Description	Report Section	Page Number
Cash Withdrawals	\$ 112,645	Cash Withdrawals authorized by the former Treasurer with no documented purpose for the Squad	Cash Withdrawals	1
Check	5,000	Check made payable to and authorized by the former Treasurer (line 7 of Table 1)	Payments to Individuals	2
Debit Card	212	Utility payment applied to the personal account of the former Treasurer	Utility Payments	3
<i>Subtotal</i>	<i>\$ 117,857</i>			
Debit Card	1,621	Utility payments applied to an account jointly held by the President and former Treasurer	Utility Payments	3
Debit Card	399	Payment applied to a personal auto loan held by the President	Other Vendors	3
Total	\$ 119,877			

Mid Sussex Rescue Squad's Response



MID-SUSSEX RESCUE SQUAD, INC.

31738 Indian Mission Road
Millsboro, DE 19966

Station (302) 945-2680 Fax (302) 945-2845

Website: www.midsussexrescuesquad.com

Proudly Serving Oak Orchard, Riverdale, Long Neck and Surrounding Areas

Members of: Delaware State Ambulance Assoc., Sussex County Ambulance Assoc., Sussex County Firemans Assoc., Delmarva Firemans Assoc.

March 16, 2018

R. Thomas Wagner, Jr., CFE, CGFM, CICA
Auditor of Accounts of the
State of Delaware
401 Federal Street – The Townsend Building
Dover, DE 19901

RE: Mid Sussex Rescue Squad

Dear Auditor Wagner:

On March 9, 2018, representatives from your office your office kindly met with representatives of the Mid Sussex Rescue Squad in our office in Georgetown. The purpose of meeting was to conduct and Exit Conference for the draft audit submitted for consideration. As has been the practice of your office, the Squad is permitted to submit their position on the audit and any conclusions drawn as a result of the investigation. Please permit me to reduce the objections, corrections and clarifications to this report on behalf of the Squad.

I wish to address each comment as it relates to the section of the draft report, for ease of reference.

Allegations & Results.

Five months prior to the Auditor of Accounts being notified that an audit was to be performed, the Squad hired a former employee of the Office of the Auditor Accounts to perform an internal review of the accounts of the Squad. This investigator determined funds had been misappropriated. At the same time, the Squad self-reported the matter to the Delaware State Fire Prevention Commission as a part of the 2016 annual financial review process. Simultaneously, the Squad took steps to recover the misappropriated funds from the member of the Squad R. Thomas Wagner, Jr.

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responsible for the theft.

Cash Withdrawals.

The Report states there were 33 case withdrawals; however, of these noted in the report, several were not withdrawals at all, in the regular course of business. For instance, there were three transactions which were listed as “withdrawals” which were really simply transfers of funds from the Squad’s accounts so as to permit certified checks for payment to third party vendors to be obtained. Other “withdrawals” were legitimate transfers of funds from one account to another, so as to close, streamline and minimize the number of open accounts maintained by the Squad. A copy of the documents supporting this exception is included herewith.

Payments to Individuals.

The Report lists a series of unsupported payments being made to related individuals within the Squad. Only 1 of the 6 transactions noted were familial in nature (being the President and EMS Chief).

Wire Transfer.

The Squad did purchase a covered trailer to transport off-road equipment to areas where regular ambulance vehicles could not be used (due to nature of the area). The Board of the Squad approved the purchase and the delivery of the trailer was accepted by the Squad. The invoice for the equipment came in the individual name of a squad member, rather than the Squad itself. A paid supervisor of the squad was given the responsibility of securing the title and tag for this equipment, however, the supervisor failed to do so. There was no follow up on the title issue by the Squad. This was an oversight which has been corrected. The trailer is not tagged and titled properly in the name of the Squad.

Payment for Automobile.

In 2011, the Board of Directors authorized the expenditure of \$399.00, to pay the personal bill of one of the members. This bill was for the motor vehicle payment of the soon-to-be-former spouse of the Squad treasurer. At this time, the parties were divorcing. The payment on the motor vehicle loan was automatically deducted from an account of those parties each month. The Squad member only discovered that the Squad Treasurer had failed to make monthly payments when R. Thomas Wagner, Jr.

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his vehicle would not start, having been deactivated by the lender. Needing to get to and from work and home, the Squad member polled the Board who authorized a one-time payment to get the vehicle operational again. This emergency payment was based upon the Squad member's long time service to the squad and the ability to secure repayment if necessary.

The Squad implemented a program similar to one utilized by other Fire and Ambulance Squads. This program authorized payments to members acting as volunteer ambulance drivers. The Squad reimbursed the volunteer drivers at a rate of \$20.00 per call (substantially less than bringing in a full time, paid employee). This program was not recorded in Board minutes, unfortunately, but has been in place for a number of years without incident. On March 10, 2018, at a properly called Directors Meeting, steps were taken to properly authorize and implement the program in question.

During the period of time since the one-time payment of the car-payment in question, the Squad member has not been reimbursed for the \$20.00 per hour program. While there are no notes ratifying this procedure, it is reflected in payment registers that this Squad Member was not paid. It is believed the Squad Member has "worked off" the debt he has for the one time car payment.

Records.

The report recites that some documentation was missing during the audit. Most of the records sought but not available go back more than eight years. During the intervening eight years, the Squad purchased a separate storage building for the growing number of records required to be retained. Regrettably, the storage building was damaged during the flooding associated with Hurricane Sandy. To the best of the ability of the Squad, all records were produced.

It is important for the Squad that the final report of the Auditor set forth several key reports:

1. Of the \$112,645.00 cited by the report (not the misleading opening amount of \$228,268.00 – which we ask be removed from the final report) the Squad was successful in recovering \$109,360.00 from the former treasurer. The Squad carefully evaluated the options of either reporting the theft and likely never recovering the public's money, or deferring prosecution and obtaining repayment of the stolen funds from the wrongdoer immediately. Looking at other fire companies and school districts which have suffered similar (and even larger) losses R. Thomas Wagner, Jr.

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- without ever receiving restitution, the Squad entered into an agreement with the former treasurer to receive repayment of sums.
2. The Squad reported the malfeasance of the former treasurer to the State Fire Commission as part of the annual audit. There was no attempt to hide or conceal the wrongdoing – the Squad self-reported in accordance with Delaware law and statutory requirements.
 3. The malfeasance of the former treasurer was part of a larger, complicated scheme intended to defraud the Squad. The use of bank counter checks, straw person conveyances, and other schemes, were only discovered upon a more thorough audit. In fact, it appears a regular, yearly; audit did not discovery many of the issues cited in the Auditor’s Report.
 4. The Squad has fully cooperated with the Auditor’s Office in this investigation and has complied with all recommendations and suggestions.

Our concern, as a Squad, is the fact that a non-carefully worded report would undermine public confidence in this very important public safety entity. Mid Sussex Rescue Squad is the only ambulance service functioning in its service area. The costs to the consumers and residents to “purchase” non-volunteer provision of advanced medical services or to vest this ambulance and rescue service with a local fire company, would be cost prohibitive. We simply request the final report take into consideration the full cooperation provided by the Squad as well as the steps taken to avoid similar concerns in the future.

I close by reminding you that the Squad entered into a confidentiality agreement with the former treasurer wherein the Squad is prohibited from disclosing facts and circumstances surrounding the settlement with the treasurer. This agreement does not prevent the Squad from cooperating with the authorities should a criminal referral occur. We simply request any disclosures made in the report do not violate the settlement agreement, thus exposing the Squad to additional liability.

Thank you for your attention to this matter. Should you have any questions or wish to discuss this matter more fully, please do not hesitate to call upon me.

Very truly yours,



Bruce A. Rogers, Esquire
Counsel for Mid Sussex Rescue Squad

Enc.: As Noted

Auditor's Response

While we acknowledge the Squad's requests and concerns, we believe the report is accurate and supported by the documentation that we obtained throughout the course of this investigation. In order to preserve the confidentiality of the Squad's account information, we removed the enclosures included with the Squad's response as they included copies of checks and a list of disbursements.

As previously stated, we appreciate the cooperation by the members of the Squad throughout the investigation. We encourage the Squad to continue to improve their policies and procedures to limit misappropriations in the future.