



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

August 15, 2016

Troy Wilmoth, Chief
Buffalo Fire Department
2619 Greensburg Road
Buffalo, KY 42716

Dear Chief Wilmoth:

The Auditor of Public Accounts (APA) has completed a special examination of the Buffalo Fire Department, Inc. (BFD). This office received concerns regarding certain financial transactions and activities by the former BFD Chief that indicated possible mismanagement and possible misuse of public funds. This letter summarizes the procedures performed and communicates the results of those procedures.

The APA reviewed certain activities for the period of January 1, 2012 through December 31, 2015. The procedures performed included reviewing certain BFD records, including but not limited to, bylaws, standard operating guidelines, board meeting minutes, available member meeting minutes, bank statements, invoices and other documentation supporting certain expenditures. We also made inquiries with individuals with direct knowledge of certain matters.

The purpose of this review was not to provide an opinion on financial statements or activities, but to review specific issues brought to our attention and provide recommendations to address deficiencies discovered during the examination. Also, it should be noted that weaknesses identified during the examination period may have occurred in other periods not covered by this examination.

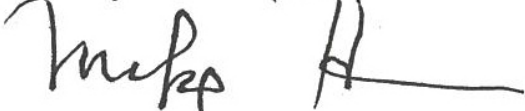
Detailed findings and recommendations are attached to this letter to assist all parties involved in BFD's governance to address weaknesses and improve internal controls. Overall, weak accounting controls and safeguards resulted in a lack of documentation to support the legitimacy of expenditures. During the examination period, BFD funds were used to pay for over \$1,550 in automotive-related expenditures for non-department vehicles. In addition, we identified \$16,166 in other questioned expenditures that lacked supporting documentation, proper authorization, and/or a known necessary and reasonable operational purpose. Due to the nature of these findings, this report will be forwarded to the Kentucky State Police and the Office of the Attorney General for consideration to determine whether additional investigation is warranted.



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We appreciate your assistance throughout the examination process. If you have any questions regarding this letter, please contact me or Libby Carlin, Executive Director of the Office of Technology and Special Audits at (502) 564-5841.

Thanks and God Bless

A handwritten signature in black ink, appearing to read "Mike Harmon". The signature is written in a cursive style with a long horizontal stroke at the end.

Mike Harmon
Auditor of Public Accounts

cc: Tommy Turner, LaRue County Judge/Executive

FINDING 2016-01: Buffalo Fire Department Did Not Retain Accounting Records, Including Proper Support To Verify The Validity Of Its Expenditures

During the examination, auditors were unable to properly test revenues and expenditures related to the Buffalo Fire Department (BFD) due to a serious lack of accounting records and supporting documentation. The lack of supporting documentation prevented auditors from determining the purpose, operational necessity, and validity of the department's expenditures. The current BFD Chief stated there was very little information regarding the financial status of the department when he took over operations in January 2016. He indicated there were no bank records and supporting documentation for revenues and expenditures from prior years was missing. In addition, he stated internal accounting records from the department's accounting software program, Quicken, had been erased from the BFD computer.

The current BFD Chief requested copies of any documentation that could be made available to him from BFD's banking institution and a recurring vendor. The resulting documentation, comprised of copies of monthly bank statements and invoices from a single vendor, was the only financial information available for examination. Over the course of the four-year examination period, BFD bank statements showed a total of \$316,283.66 in revenues and other credits, and a total of \$359,510.93 in expenditures and other debits. An analysis of the available records identified that nearly one-third of total expenditures were attributable to four annual loan payments of \$27,052.97 each, for a total of \$108,211.88. Supporting documentation was unavailable for the majority of the remaining \$251,299.05 in expenditures, as described in greater detail in the findings below.

Also, the lack of inventory records made it difficult to verify the ownership of various assets. The current BFD chief could only provide a handwritten list of vehicles owned by the department during our examination period. However, during the examination, auditors determined the list was incomplete and contained errors. Additionally, during discussions with auditors, the former BFD Chief disclosed he was still in possession of BFD equipment, although the current BFD Chief did not identify this as a concern. Without a complete and accurate inventory list, it appears the current BFD Chief may not have known these items are not in the department's possession.

Recommendation(s)

BFD financial records, such as bank statements, internal accounting records, inventory listings, receipts, and other supporting documentation, should be retained for a reasonable period of time. The BFD Board of Directors (Board) should adopt financial policies and procedures, including the establishment of a record retention policy that promotes accountability and ensures records are available when needed for operational and audit purposes. The Board should also consider adopting policies for the complete and orderly inventory and transition of records when there is a change in the BFD chief.

FINDING 2016-02: Over \$1,550 Was Paid By BFD For Automotive-Related Expenditures On Non-BFD Owned Vehicles

Based on BFD's bank statements, the department paid \$18,850.78 to automotive-related vendors during the examination period. As noted in Finding 2016-01, proper supporting documentation was lacking in the majority of BFD expenditures; however, the current BFD Chief was able to obtain invoices from a local vendor supporting \$8,270.14 in payments, which accounted for 44% of the automotive-related expenditures. The vendor-provided invoices identified detail about the type of expenditure and who signed the invoice to authorize the work. Nearly one-third of the line items on the vendor-provided invoices also documented information regarding the specific vehicle for which the service or part was purchased. In reviewing these invoices, \$1,554.19 was expended on parts or services for vehicles BFD did not own. The former BFD Chief signed for work on all of the non-BFD owned vehicles, with the exception of one vehicle. That vehicle repair was signed for by the former Chair of the BFD Board of Directors, who was also the sole signer on the check to pay for this work. A breakdown of the work completed for each non-BFD vehicle is shown in Table 1 below.

Table 1: BFD Payments for Service/Parts on Non-BFD Owned Vehicles

1991 Chevrolet C&K 1500			
Date	Amount	Signed Invoice	Signed Check
1/20/2014	\$ 109.99	Former BFD Chief	Former BFD Chief
2/27/2015	144.62	Former BFD Chief	Former BFD Chief and Former Vice Chair of the BFD Board of Directors
3/2/2015	59.31	Former BFD Chief	Former BFD Chief and Former Vice Chair of the BFD Board of Directors
3/12/2015	108.34	Former BFD Chief	Former BFD Chief and Former Vice Chair of the BFD Board of Directors
Sub-Total	\$ 422.26		
1997 Plymouth Breeze			
Date	Amount	Signed Invoice	Signed Check
8/6/2013	\$ 117.99	Former Chair of the BFD Board of Directors	Former Chair of the BFD Board of Directors
Sub-Total	\$ 117.99		
2001 Chevrolet Silverado 2500			
Date	Amount	Who Signed Invoice	Who Signed Check
5/23/2013	\$ 149.99	Former BFD Chief	Former BFD Chief
2/18/2015	732.00	Former BFD Chief	Former BFD Chief and Former Vice Chair of the BFD Board of Directors
2/20/2015	49.99	Former BFD Chief	Former BFD Chief
Sub-Total	\$ 931.98		
2003 Chevrolet Kodiak C7500 (no engine)			
Date	Amount	Signed Invoice	Signed Check
4/3/2014	\$ 33.97	Former BFD Chief	Former Chair of the BFD Board of Directors
Sub-Total	\$ 33.97		
John Deere lawnmower			
Date	Amount	Signed Invoice	Signed Check
3/2/2012	\$ 47.99	Former BFD Chief	Former Chair of the BFD Board of Directors
Sub-Total	\$ 47.99		
\$ 1,554.19 GRAND TOTAL			

Source: APA based on invoices and bank statements provided by the current BFD Chief.

BFD's Bylaws require that "Maintenance and Repair of Vehicles should be done on an as needed basis. Not to exceed \$100.00 per purchase. If it exceeds \$100 the Chief and Maintenance Officer must approve the purchase." While some purchases at the vendor totaled less than \$100 per instance, many purchases exceeded that threshold and documentation does not exist to show they were properly approved. The invoices obtained from the vendor documented only one signature for authorization, and the current BFD Chief was unable to locate any evidence to support that these purchases were approved by both the former BFD Chief and a Maintenance Officer.

Also, despite a Bylaw requirement that granted the Chief authority to make purchases for the department of up to \$500 dollars per quarter, a review of the bank statements and invoices provided support that the former BFD Chief was routinely authorizing more than this amount in automotive-related purchases each quarter. In addition to the previously mentioned expenditure of BFD funds for the maintenance and repair of non-BFD owned vehicles, the former BFD Chief also authorized the majority of those invoiced amounts for parts and services for which a specific vehicle was not identified. Evidence was not sufficient to determine whether or not those charges were legitimate BFD expenditures.

Auditors inquired with the former BFD Chief regarding the authorization of expenditures, and he stated that the \$500 Bylaw requirement was raised many years ago and he was given the authority to spend up to \$2,000 per month. However, the Bylaws did not support this statement, and this change was not documented in the meeting minutes provided.

Finally, the minutes for regular member meetings during calendar year 2015 rarely documented any discussion of expenditures. While this appears to conflict with a Bylaw requirement that "any purchases for the department must go before the department members," the former BFD Chief stated that purchase discussions took place but were not documented.

Recommendation(s)

BFD should develop formal, written policies and procedures that adhere to the BFD Bylaws specifying how BFD funds may be expended. At a minimum, such policies should include the requirements for proper authorization, disclosure to the membership, and requirements to maintain appropriate supporting documentation. BFD's policies should clearly communicate that BFD funds shall not be used for expenditures that are personal in nature or do not serve a department-related purpose. Additionally, policies should address disciplinary action for members that violate the established policies and require immediate repayment of funds. Further, any changes approved during the member meetings should be reflected in the BFD Bylaws and included in the appropriate written policy or procedure to ensure updated policies are maintained.

FINDING 2016-03: More Than \$6,900 Was Paid To Family Members Of The Former BFD Chief During The Examination Period

During the examination period, the former BFD Chief wrote 18 checks to himself or to family members (father, brother, or sister-in-law), reportedly for providing services to or making purchases on behalf of BFD. These payments totaled \$6,909.73. A breakdown of the payments issued to the former BFD Chief and his family members is presented below, along with information included in the memo line of the check.

Table 2: Payments to BFD Chief and His Family Without Adequate Supporting Documentation

Payee	Amount	Check No.	Date	Memo Line Description
Former BFD Chief	\$ 455.00	5741	2/1/2012	Part payment on new septic tank on old building.
	199.08	5894	2/21/2014	Hauling and furnishing rock Ticket #3717557.
	\$ 654.08			
Father of Former BFD Chief	\$ 393.26	5734	1/20/2012	Reimbursement for front door new building.
	242.39	5735	1/20/2012	Reimbursement for underlayment new building.
	\$ 635.65			
Brother of Former BFD Chief	\$ 720.00	5858	8/27/2013	2501 Greensburg Rd Paint building
	400.00	5968	2/26/2015	2619 Greensburg Rd Paint meeting rm
	400.00	5969	3/2/2015	2619 Greensburg Rd Paint meeting rm
	\$ 1,520.00			
Sister-in-Law of Former BFD Chief	\$ 450.00	5807	12/6/2012	Prepare Christmas dinner payment 1st half
	450.00	5809	12/17/2012	Prepare Christmas dinner payment on full
	450.00	5868	12/10/2013	Prepare Christmas dinner payment
	100.00	5869	12/11/2013	Prepare Christmas dinner extra funds to cover food
	450.00	5876	12/14/2013	Prepare Christmas dinner payment
	450.00	5948	12/5/2014	Half payment Christmas dinner food preparation
	450.00	5951	12/13/2014	Half payment Christmas dinner food preparation
	100.00	5952	12/13/2014	Additional funds to cover food
	200.00	5962	1/29/2015	Computer
	500.00	6018	12/4/2015	Half payment for Christmas dinner preparation
	500.00	6022	12/19/2015	Final payment for Christmas dinner preparation
\$ 4,100.00				
Grand Total	\$ 6,909.73			

Source: APA based on bank statements provided by the current BFD Chief

As stated in Finding 2016-02, BFD Bylaws require that “any purchases for the department must go before the department members.” To determine compliance with this requirement, auditors reviewed the regular member meeting minutes for calendar year 2015, which was the only year meeting minutes were available. For the five checks written to family members of the former Chief in calendar year 2015, there was no documented evidence that these expenditures were known or approved by department members.

The February meeting minutes did document that the brother of the former BFD Chief would “give a quote on painting the walls in the old building.” Subsequent meeting minutes do not mention the estimated amount although the former BFD Chief stated that additional discussion did occur. Within one week of the February meeting, the former BFD Chief’s brother was paid a total of \$800 for painting the meeting room. Additionally, inquiry with current BFD members indicated that someone other than the former BFD Chief’s brother painted the exterior of the building in 2013. However, documentation was not sufficient to verify whether the former Chief’s brother actually performed the work for which he was paid, or whether another individual was also paid for the same work.

Both the November and December meeting minutes mention the date for the department’s Christmas dinner, but there was no mention of the service to be performed by the former BFD Chief’s sister-in-law or the payment to be provided. Additionally, meeting minutes do not mention anything regarding the acquisition of a computer, or the \$200 payment to the former BFD Chief’s sister-in-law for this purchase.

There are no requirements in BFD’s Bylaws that prevent work by family members when the expenditures are properly authorized, documented, and reported. However, there was no supporting documentation, such as invoices, scope of work agreements, or authorizations, available for any of the expenditures listed in Table 2. When coupled with the lack of disclosure of expenditures to the members during meetings, there is an increased risk that BFD funds could be used for unauthorized and/or unpermitted purposes.

Recommendation(s)

As recommended in Finding 2016-02, BFD’s Board should develop formal, written policies and procedures specifying how BFD funds can be expended. At a minimum, such policies should include the requirements for proper authorization, disclosure to the membership, and the maintenance of supporting documentation. Further, we recommend that policies for expense reimbursements or contracted work require detailed, itemized receipts or invoices and that the documentation be submitted within a specified period. In the case of payments to BFD officers and family members, we recommend the policies and procedures require authorization and oversight by non-family members.

FINDING 2016-04: BFD Expenditures Did Not Have Sufficient Supporting Documentation To Justify Their Validity, And The Current BFD Chief and Officers Could Not Identify The Necessary And Reasonable Operational Purpose Of \$9,910 In Expenditures

Of the 1,019 expenditure and other debit transactions listed on BFD's bank statements during the examination period, 108 transactions were selected as a sample for further review. No supporting documentation or written authorization was available for any of the sampled transactions. Auditors presented these transactions to the current BFD Chief, who met with the BFD officers to discuss whether the expenditure had a known necessary and reasonable operational purpose though one was not documented. After this discussion, the department leadership could not identify the purpose of 42 expenditures totaling \$9,910.37, which includes the \$654.08 paid to the former BFD Chief identified in Table 2 of Finding 2016-03.

These 42 transactions included three payments totaling \$1,124.23 on a loan the current BFD Chief did not know existed. He also questioned whether the Board of Directors and members were aware of this loan. According to the current BFD Chief, the bank indicated to him that the only information they had about the loan was that it had been taken out "to pay bills."

Other observations from this review included the following:

- Six "debit withdrawal" transactions, totaling \$4,610.76, for which the current BFD Chief and his officers could neither explain nor find additional documentation to justify;
- Four payments to a cell phone carrier, totaling \$685.03;
- Fourteen payments to restaurants, totaling \$741.31;
- Two checks, totaling \$560.00, made payable to cash instead of the vendor listed in the memo field;
- Two checks, totaling \$654.08, made payable to and signed solely by the former BFD Chief;
- Twelve instances of overdraft or service charges collected by the bank, totaling \$235; and
- Seven instances in which two consecutively numbered checks were written to the same vendor on the same date for the same purpose, totaling \$5,095.45. Based on the amount of 13 of the 14 checks, it appears this action may have been an attempt to circumvent the requirement for two signatures on all checks over \$500.

Without additional documentation, auditors were unable to determine whether these withdrawals and expenditures were for legitimate operational purposes. The lack of supporting documentation for these transactions, as well as a lack of knowledge by BFD officers as to the purpose, makes it difficult to verify the necessity and reasonableness of the transactions.

Recommendation(s)

BFD should evaluate the specific requirements stated in the Bylaws related to the finances to determine what changes are necessary to ensure that expenditure documentation contains the justification of the operational purpose. Along with these additional requirements, BFD should develop formal, written policies and procedures specifying how BFD funds can be expended,

and how they are to be monitored by BFD officers or others. At a minimum, such policies should include the requirements for proper authorization, disclosure to the membership, and the need for proper supporting documentation. All loans should be formally approved by department members and documented in meeting minutes. Additionally, procedures should be in place to ensure controls are operating effectively. For example, procedures should be implemented to review financial information to ensure BFD's two signature requirement for checks over \$500 has not been circumvented, the two signers are not related, and the payments are for valid purchases that have been properly authorized.

FINDING 2016-05: BFD Incurred Over \$19,000 In Gas Station Expenditures That Were Not Monitored

Based on a review of bank statements, BFD paid \$19,259.33 to gas stations during our four-year examination period without any type of review or monitoring process. The current BFD Chief expressed concerns about whether some of the expenditures could be attributed to personal purchases instead of being for legitimate BFD operational purposes. However, as noted in other findings, adequate supporting documentation was not available, from either the department or the vendor for these expenditures. Therefore, all gas station expenditures are questionable because it was not possible to determine the necessity and reasonableness of these purchases.

In reviewing bank statements, auditors observed three types of gas station expenditures:

- 1) Checks to a local gas station at which BFD ran a charge account;
- 2) Other expenditures at the same local gas station using the BFD debit card; and
- 3) Expenditures at other gas stations using the BFD debit card, both inside and outside the county.

The payment of the charge account at the local gas station accounted for 94% of the four-year total of \$19,259.33, leaving only 6% of the total attributable to the last two types of gas station expenditures. The following table shows the amount expended annually during the examination period by type.

Table 3: Gas Station Expenditures

Calendar Year	Type 1 Expenditures	Type 2 Expenditures	Type 3 Expenditures	Total Expenditures
2012	\$4,325.61	\$152.23	\$0.00	\$4,477.84
2013	4,552.74	243.01	30.00	4,825.75
2014	6,385.44	293.00	262.00	6,940.44
2015	2,817.27	28.03	170.00	3,015.30
Total by Type	\$18,081.06	\$716.27	\$462.00	\$19,259.33

Source: APA calculations based on bank statements provided by BFD.

As stated in the previous findings, BFD Bylaws require that “any purchases for the department must go before the department members.” According to meeting minutes, gas station expenditures were not discussed at any of the regular member meetings held during calendar year 2015, the only year for which minutes were available. Although BFD lacked written financial policies or procedures covering gas expenditures, the current BFD Chief indicated he did not know why any gas was bought out of town or on the debit card, and stated, “This should not happen.”

Recommendation(s)

As recommended in previous findings, BFD should develop formal, written policies and procedures specifying how BFD funds can be expended. BFD should establish controls and review procedures to minimize the risk of abuse. At a minimum, policies should require receipts, the purchasing individual's name, the vehicle, the vehicle's odometer reading, and the necessary

operational purpose for the purchase. Additionally, procedures should be developed related to proper authorization, disclosure to the membership, and the review of expenditures to ensure spending practices adhere to the department's policies. Purchases and the supporting documentation should be consistently reviewed and monitored so that undocumented or inappropriate purchases can be addressed in a timely manner.

FINDING 2016-06: BFD Does Not Have Written Financial Policies And Procedures

Written policies and procedures codify an organization's criteria for executing operations. However, BFD currently has no written policies and procedures regarding financial matters. The department has Standard Operating Guidelines (SOGs); however, the SOGs only mention expenditures one time when it forbids company officers to incur an expense to the department unless by requisition issued from the proper authority. The Bylaws, referred to in the preceding findings, offer some guidance regarding financial matters, although this guidance is not sufficient to cover all the areas needed for accountable and transparent operations.

Based on the results of this examination, it appears that both personal and unnecessary expenditures occurred, which could not be detected or prevented by the department due to poor documentation practices and a lack of formal policies.

Recommendation(s)

As stated in previous recommendations, BFD should evaluate the specific requirements mentioned in its Bylaws to determine if changes to the language are necessary. More importantly, BFD should develop formal, written financial policies and procedures specifying how BFD funds can be expended in order to minimize the risk of unauthorized spending. At a minimum, such policies should include the requirements for proper authorization, disclosure to the membership, the need for supporting documentation, and monitoring procedures.

FINDING 2016-07: Financial Information Was Not Reported To BFD Regular Membership During Calendar Year 2015 As Required

BFD Bylaws require regular member meetings to occur on a monthly basis, at which the department Treasurer is required to make a report of funds to the membership. As stated previously, the current BFD Chief was able to locate regular member meeting minutes for only calendar year (CY) 2015. The minutes for CY 2015 identify that member meetings did occur on a monthly basis during the year. However, the minutes do not document that the Treasurer reported on the department's funds or distributed a financial report at those meetings.

BFD Bylaws also require that "Any purchases for the department must go before the department members. The Chief shall have the authority to make purchases for the department of up to \$500.00 dollars per quarter." According to their bank statements, BFD expended a total of \$78,422.42 during the course of CY 2015. A more in-depth review of the regular monthly meeting minutes for CY 2015 identified that of the 19 instances in which a specific dollar amount is mentioned, 12 instances related to revenues received, 6 instances related to estimates given on items to be purchased, and 1 instance related to an actual expenditure. In the case of the 6 estimates, the actual amount expended is not mentioned in subsequent meeting minutes. Minutes also do not indicate that written expenditure reports were provided in lieu of verbal reports.

Recommendation(s)

The BFD Treasurer should provide a written report on the current status of all BFD funds and/or accounts, including loan balances, at each monthly regular member meeting. We also recommend the BFD Chief make available a copy of all bank statements and provide additional detail related to any unanticipated or irregular expenditures that occurred during the month. In relation to these recommendations, meeting minutes should be detailed to document any reports provided, topics discussed, and any actions taken.