10 ways to protect your fire-department finances from theft

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Earlier this month, the former treasurer of a New Jersey fire department admitted to embezzling more than $300,000, using fire-department checks to pay off her mortgage and her family's car loans. The thefts occurred over a six-year period.

Such occurrences are far too common, according to William Jenaway, executive vice president of insurance provider VFIS. Almost weekly, stories are reported of emergency-services organizations that have suffered theft of funds, misappropriation of funds or some other fidelity-related loss.

"Emergency services organizations guard against injury with protective gear and secure equipment to prevent damage, but two less-visible assets also need their attention: their funds and their reputation in the community," Jenaway said last week in "Managing Fire Department Financial Systems" webinar hosted by the NVFC.

Fire leadership needs to scrutinize several general management practices within the department. These include finances and budgeting, as well risk identification and management, legal issues, social media, personnel concerns, and strategic planning. All of these issues require solid financial management in order to survive, Jenaway said.

Fire chiefs need to be concerned about and proactively deal with financial management issues. As leaders in the community, fire chiefs also can receive negative publicity from department fidelity issues. Consequences can include embarrassment, bad public relations, loss of members, failure to obtain new members, probation, jail time, monetary fines, and lawsuits.

"You can end up on the witness stand in court — or in the court of public opinion," said

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Jenaway, who also is chief of the King of Prussia (Pa.) Fire Department.

Theft within an organization can begin quite subtly, and that's part of the problem. Jenaway offered one example: The person charged with managing department funds brings five of six blank checks for your signature. He later reports that one of the checks was voided for an error, but in reality it was cashed. The same situation repeats itself in three months, then again in another three months.

"As the fear of getting caught diminishes, the amount increases, and by the time the person is caught, the amount can be in the five-figure range," Jenaway said, adding that research has show the amount found usually is only a portion of what was actually taken.

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The loss of funds can jeopardize quality of response, equipment and services to the community. But the damage to an agency's reputation in the community can hinder fundraising efforts and diminish good will — and that can be even harder to repair.

Jenaway offered another example: Consider the secretary who normally picks up the mail. One day, the department receives a notice from the IRS stating that the filing of Form 990-N (the form required for small exempt organizations) is due or past due. She passes the notice along to the treasurer, who is responsible for finances.

What happens if the secretary or treasurer says the notice was lost in the mail and the form is not filed? The agency will receive the same notice the following year. If the form wasn't filed the previous year and nothing came of it, he or she might not see the need to file it again this year.

But what happens if the agency gets caught? The IRS will revoke its 501c3 status, and several key donors may choose to withhold their support for lack of a tax incentive.

Directors, managers, chief officers, treasurers, financial secretaries, even special-event managers all have the potential to drain the organization financially if they do not perform their duties with fidelity —a strict observance of a performance or duty, or the adherence to fact or detail.

So, how do you prevent problems? Jenaway offered 10 risk-control measures:

1. Have fire-department financial policies in writing. It is important that officers have written job expectations or written job duties. These typically are in the form of a bylaw, SOG or an official job description. It is important that they understand what their duties are and how to perform them with fidelity.
2. Have two members present anytime cash is changing hands, a central location for collecting cash, and two members present when preparing bank deposits involving cash.
3. Have a credit-card accountability procedure in place.
4. Require two signatures for checks and only sign checks that are written in full. Never pre-sign checks or use signature stamps.
5. Assign responsibility of investment to a team or committee, not to an individual. Jenaway said there have been a number of recent cases in which a single person was put in charge of investment for the organization. These can run into the millions of dollars.Consider having an investment policy for your organization that not only indicates that a team will be responsible for investing for your organization, but that you will have an investment counselor and investments will be driven by 60% long-term, 20% short-term and some with high-risk, some low-risk, just like you would manage your personal investment.
6. Review bank statements on a monthly basis. If you have monthly meetings in which you review what needs to be paid, it's important to have someone who ensures that every penny in an organization goes to the appropriate place. Any questions are discussed on the floor during these meetings.
7. Conduct background checks for personnel with fiduciary duties. If a department placing someone with prior dishonest acts in such positions, it risks voiding its insurance coverage.Background checks should be done on any member who joins the organization, and members should be aware that background checks may be conducted at any time.
8. If possible, prohibit family members or people with close personal ties from simultaneously

holding positions with financial responsibilities.

9. Obtain adequate insurance to cover risks associated with various aspects for the organization's finances. This includes bonding, fidelity coverage and crime coverage. Fire departments often obtain bond insurance on the person responsible for managing the funds. However, the bonds are in small amounts and do not cover all of the funds to which the individual has access. Jenaway said there are a number of cases in which bonds were obtained for $25,000 or $50,000, when in reality the losses were six figures or larger.
10. Audit all accounts. Audits should be done by committee at least annually and should be all-inclusive. Most states require fire districts, fire companies and fire departments also obtain an independent audit.

"No state or region is immune to fire-department embezzlement," Jenaway said. "Internet searches showed 150 results for fire-department embezzlement in the last two years. But we believe this is just the tip of the iceberg. To avoid embarrassment, agencies keep incidents quiet, remove the officers and absorb the loss. Some try to get offenders to make restitution without involving authorities by simply allowing monthly payments to the organization."

A word on credit cards

Misuse of fire-department credit cards is a concern. One recent news story told of an assistant chief charged with embezzlement. He purchased more than $300,000 worth of high-end electronics and vehicle components using a fire-department credit card.

To prevent such incidents, fire departments should have a governing board authorize who receives fire-department credit cards. Those who do receive them also should receive guidelines and training not only on their use, but also on their accounting.

Departments should have cards in names of specific individuals. Having the individual's name often means they are responsible for sending in the payments. This requires expense accounts to be submitted and reviewed. There also should be periodic analysis of individual card users.

Jenaway also recommends departments:

- Prohibit use of department cards for personal expenses.
- Do not use cards that allow cash advances.
- Establish "reasonable" credit limits.
- Establish guidelines for use of phone, fax or Internet purchases.
- Review bills and watch for red flags.
- Have a reconciliation process and timetable.
- Never allow anyone to review and approve his or her own transactions.
- Verify that items purchased were actually received.

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