



OFFICE OF THE COUNTY AUDITOR

Craig Glendenning, CPA
County Auditor

July 22, 2019

The Honorable Members of the County Council
The Honorable County Executive Calvin Ball
3430 Courthouse Drive
Ellicott City, MD 21043

Christine Uhlhorn, Chief
Howard County Department of Fire and Rescue Services
2201 Warwick Way
Marriottsville, MD 21104

Board of Directors
West Friendship Volunteer Fire Department, Inc.
12535 Old Frederick Rd
Sykesville, MD 21784

Dear Council Members, Dr. Ball, Chief Uhlhorn, and Board Members:

In accordance with Section 212 of the Howard County Charter, I am reporting on the results of our investigation of an allegation of fraud, waste, and abuse of County funds involving the West Friendship Volunteer Fire Department, Inc.

Background, Scope, and Methodology

There are six Volunteer Fire Corporations (the Corporations) in Howard County. The Corporations are staffed with volunteers who give their time to assist Howard County's Department of Fire and Rescue Services in providing public safety services to residents. There is a full-time County employee assigned to the Elkridge station and a part-time County employee assigned to the Ellicott City station to support administrative functions. Corporation operations are mostly funded with County Fire Tax revenue. The total Fiscal Year 2019 appropriation for the Corporations was \$4.7 million in County funds. The West Friendship Volunteer Fire Department, Inc., (West Friendship) received approximately \$562,000 of that County appropriation. Corporations may also receive funds from other sources such as donations, fundraising, and State grants (i.e., the William H.

Amoss Grant). Corporations are required to maintain separate accounts for County and Corporation funds. Because they receive County revenue to support their operations, the Corporations are responsible for preparing financial statements. External auditors, under the direction of a public accounting firm hired by the County Council, annually audit these statements.

While performing their 2018 annual audit procedures at West Friendship, the external auditors were informed of possible fraudulent activity¹, as well as waste and abuse² of County funds by the West Friendship officers. Based on information provided by the external auditors to the Office of the County Auditor, I made the decision that our Office was duty-bound to follow-up on the accusation.

Our initial work revealed that further investigation was needed. Therefore, I requested and received the approval of the Council to move forward with an investigation. It should be noted that due to the sensitivity of the issue, I did not advise the Council of the specifics of the allegation at that time.

Our review was limited to the use of County taxpayer revenue. We did not include expenses made using other sources such as fund raising and donations. We reviewed credit card and bank statements and supporting documentation for Fiscal Years 2014 through 2018. In addition, we interviewed West Friendship present and former Officers, including the previous Chief.

A pervasive lack of supporting documentation limited our ability to determine the extent of certain findings included in this report. Although this was a West Friendship-wide weakness, which we quantify below under Other Findings – West Friendship, this lack of documentation often related to purchases made by senior personnel, including the previous Chief and current Treasurer. For example, \$130,135 of the previous Chief’s and current Treasurer’s credit card purchases over the five-year period were not supported by itemized receipt, and therefore we could not identify the actual goods purchased.

Our findings and recommendations are presented in three sections as follows:

- **Findings – Fraud, Waste, and Abuse** – includes findings where the condition(s) are indicative of possible fraud, waste, or abuse of County funds.
- **Other Findings – West Friendship** – includes findings identified as specific to West Friendship resulting from our investigation. These conditions may have contributed to our findings of fraud, waste, or abuse.
- **Other Findings – County** – includes findings applicable to the County’s relationship and oversight of all Corporations. The conditions cited are not unique to West Friendship.

¹ Government auditing standards defines fraud as obtaining something of value through willful misrepresentation.

² The Government auditing standards definition of abuse includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.

FINDINGS – FRAUD, WASTE, AND ABUSE:

Finding 1

The previous Chief used his family business to establish cellular phone service and purchase cellular phone equipment on behalf of West Friendship. The previous Chief invoiced West Friendship for this service yet failed to provide adequate documentation to support these costs, some of which were questionable.

The previous Chief's family business supplied cellular phone service and related equipment to West Friendship at a cost of \$27,524 for the review period. These costs were paid by West Friendship using County funds.

The previous Chief did not provide detailed accounts of the phone numbers, services, and associated personnel to West Friendship. As a result, West Friendship made payments without reviewing the documents supporting the propriety of the amounts or the services being received. We comment on the overall lack of supporting documentation in Finding 7 of this report.

Subsequently, upon our request, the previous Chief provided us with detailed documentation supporting the charges.

We determined that West Friendship paid for monthly costs applicable to seven or eight cellular phone numbers depending on the month. We found that one of the numbers paid by County funds was provided to a person not associated with West Friendship (that is, the person was not a volunteer). In addition, we could not determine the users for three other numbers as the numbers were not associated with any specific West Friendship volunteer. The previous Chief agreed that West Friendship should not have paid for the non-volunteer's phone service and stated that the other three numbers were rotated when there were changes in Officers.

We reported these conditions to the County Administration for follow-up.

We recommend that cellular phone usage and equipment purchases be billed directly to West Friendship and a detailed review of the supporting documentation be performed prior to payment.

West Friendship's Response:

West Friendship Volunteer Fire Department concurs with the finding but notes that, prior to the initiation of the audit and the issuance of the recommendation, West Friendship Volunteer Fire Department had ended the partnership with the local county approved vendor to acquire cellular services. West Friendship Volunteer Fire Department determined there was an operational need to provide cellular phones to senior leadership of the department in order to efficiently and effectively

run the department. In keeping with our policies and the expectations of the county tax payers, West Friendship Volunteer Fire Department looked to leverage volume to reduce the overall cost of the cellular services.

Administration 's Response:

The Administration concurs with the finding. The County will work with the Fire Chief to ensure that supporting documentation is reviewed prior to payment and cellular phones and equipment purchases are billed directly to the Corporation.

Finding 2

The previous Chief used his authority and position to order and/or approve purchases from his family business.

We determined that the previous Chief used his position to approve or order and approve \$6,307 of miscellaneous (non-cell phone) purchases from his family business. Specifically, the previous Chief made \$5,892 of purchases from his family business with only his signature on the purchase order, therefore without independent review or approval. An additional \$415 of purchases were initiated by another individual and approved by the previous Chief.

We recommend that West Friendship Officers no longer purchase and/or approve goods or services from their family-owned business.

West Friendship's Response:

West Friendship Volunteer Fire Department acknowledges the findings. In keeping with our policies and the expectations of the county tax payers, West Friendship Volunteer Fire Department at the time used and continues to use locally owned and county approved vendors to acquire goods related to department operations at or below market value. Additionally, West Friendship Volunteer Fire Department has updated its Standard Operating Procedure for purchasing goods to provide alternate approvers for cases that could be perceived, such as this case, or are conflicts of interest with our elected senior leadership.

Finding 3

West Friendship used County funds to send gifts, donations, and flowers in violation of County policy.

County policy prohibits the use of County funds for flowers, gifts, and items or services for personal use. However, West Friendship routinely used County funds for such items.

Specifically, based on available documentation, we determined that West Friendship purchased and distributed at least \$9,260 of gifts, donations, and/or flowers over the five-year period using County funds. Again, due to the number of purchases without itemized receipts, we could not determine the full extent of County funds used for these purposes.

We recommend that West Friendship stop using County funds to purchase and distribute gifts, donations, and flowers.

West Friendship's Response:

West Friendship Volunteer Fire Department concurs with the finding but notes that, prior to the issuance of this response, West Friendship Volunteer Fire Department updated its Standard Operating Procedure related to distribution of cards, gifts, and flower to reflect that county funds cannot be used.

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| Finding 4 County and West Friendship funds were comingled. |
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Although West Friendship generally kept County and West Friendship funds separate, we did find instances where West Friendship mixed the funds.

West Friendship spent at least \$19,300 in County funds for food and beverage purchases to stock its three vending machines and on concessions for the County Fair. Proceeds from vending machine sales and County Fair concession sales were then deposited into West Friendship's General fund bank account. This account is not included in the County's oversight of the Corporation. As previously noted, the true amount of County funds used may be higher due to the lack of documentation to support expenses.

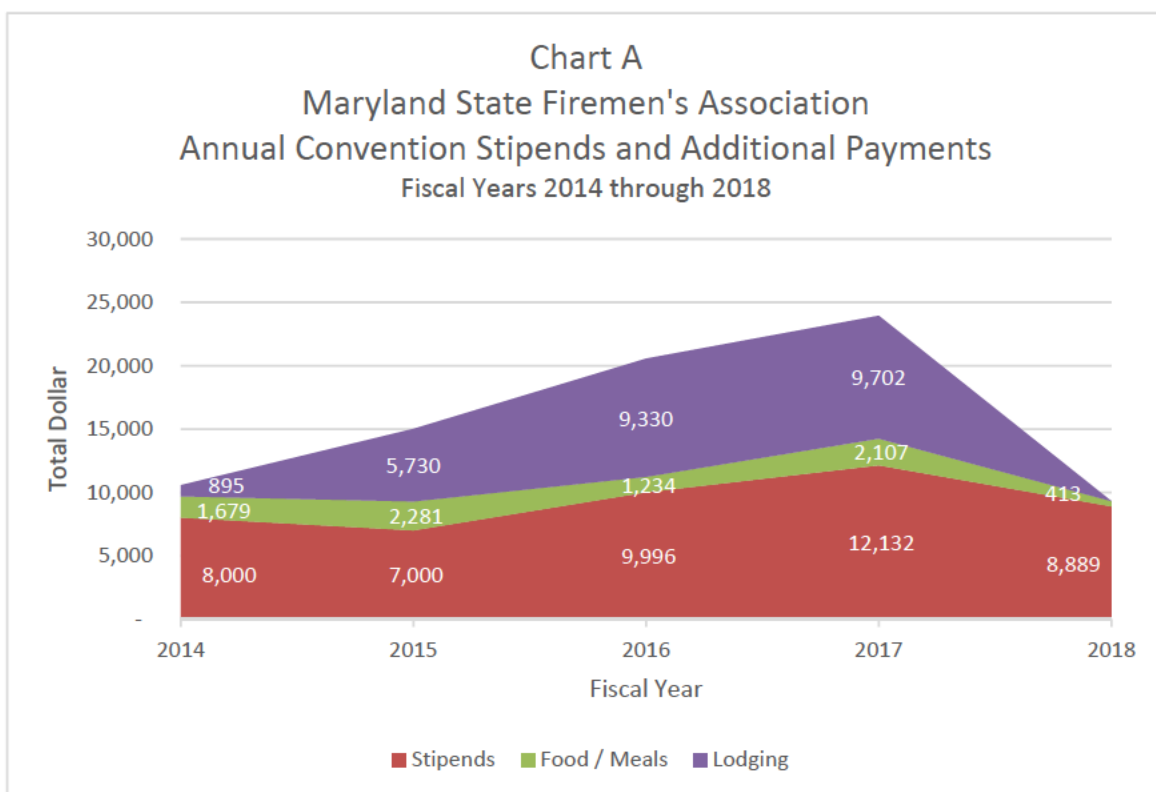
We recommend that West Friendship keep County and West Friendship funds separate. Specifically, we recommend that West Friendship use its General fund account to purchase goods where the related proceeds are deposited into the General fund.

West Friendship's Response:

West Friendship Volunteer Fire Department concurs with the finding but notes that, prior to the issuance of this response, West Friendship Volunteer Fire Department updated its Standard Operating Procedure related to purchasing goods to make a clear delineation between fund sources.

Finding 5**Certain travel costs were incurred using County funds instead of West Friendship funds.**

West Friendship volunteers receive a stipend to attend the annual Maryland State Firemen's Association Convention as approved by the West Friendship Board. We were advised this stipend covers the County funded portion of costs for meals, travel, and lodging. We found that for Fiscal Years 2014 through 2017, West Friendship used County funds to pay additional costs for lodging and food. Chart A below illustrates the stipend and additional travel costs paid by County funds. The current President significantly reduced the practice of using County funds for additional expenses in Fiscal Year 2018. We also found that West Friendship doesn't require Convention attendees to provide any support for how the stipend was used.



We recommend that West Friendship use County funds specifically to fund the Convention stipend only and that West Friendship funds be used for any additional costs. We further recommend that Convention attendees submit documentation supporting the use of the stipend (for example, accommodations, food, and gas receipts) and that this documentation be retained with the related stipend documentation by West Friendship.

West Friendship's Response:

West Friendship Volunteer Fire Department concurs with the finding but notes that, prior to the initiation of the audit, West Friendship Volunteer Fire Department corrected the practice of using county funds for additional travel costs. These changes are supported by the county's finding as well as highlighted by Chart A. West Friendship Volunteer Fire Department has updated its Standard Operating Procedure related to expense documentation to require members to submit an expense report for any travel costs.

OTHER FINDINGS – WEST FRIENDSHIP:

Finding 6

Items purchased were frequently delivered to the purchaser's home or business address.

Goods totaling at least \$11,860 purchased with West Friendship issued credit cards were shipped to the purchaser's home or business addresses instead of directly to West Friendship. These items included sensitive items such as computer equipment. However, West Friendship had no policies on when this procedure may be appropriate and no required documentation to ensure subsequent delivery of the items to West Friendship. In addition, many of these purchases were not supported with detailed receipts. According to West Friendship personnel, they felt that sensitive items may go missing if they were delivered directly to the station.

We recommend that all items purchased by West Friendship be delivered to the station. If West Friendship believes that certain items must be delivered offsite, we recommend that it develop and implement policies to document the receipt and delivery of such purchases to the station. Such documentation should be retained with the related payment documents.

West Friendship's Response:

West Friendship Volunteer Fire Department acknowledges the finding but notes that, there is an operational, security, and accountability need to continue this practice for sensitive, valuable, and potentially hazardous items. In keeping with the second part of the recommendation, West Friendship Volunteer Fire Department has developed a Standard Operating Procedure governing this practice, as well as, establishing documentation requirements.

Finding 7

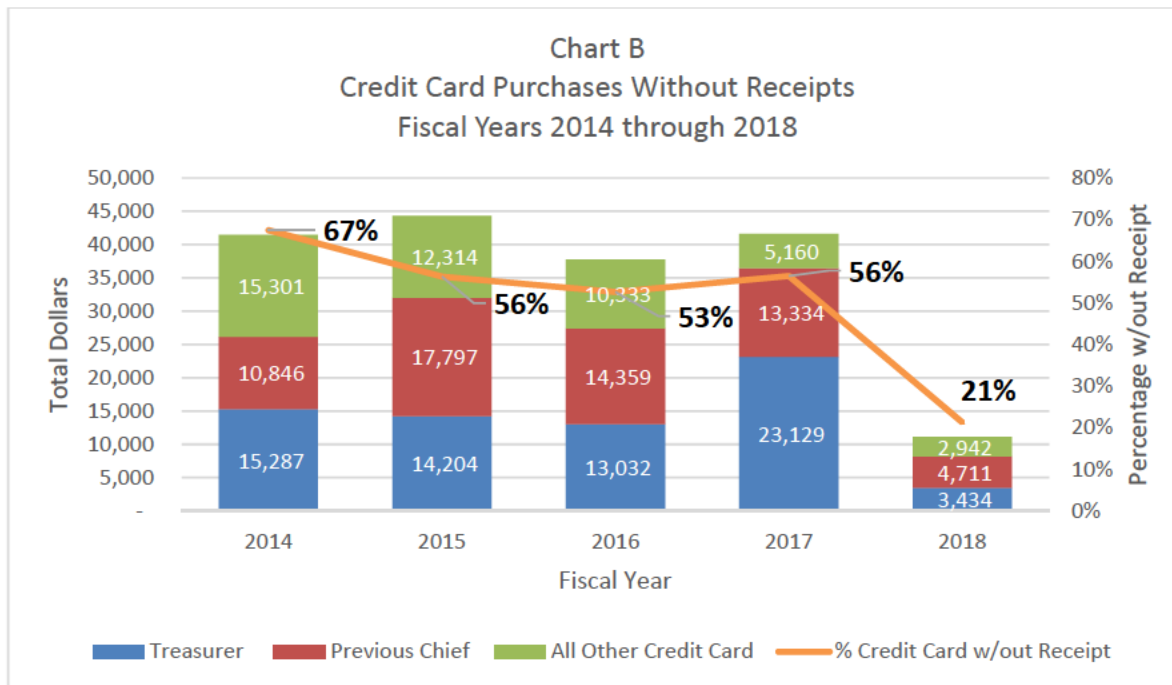
West Friendship had not developed or implemented internal controls over credit card and purchase order payments.

The current President of West Friendship attempted to implement procedures that have reduced the amount of unsupported credit card transactions for FY 2018. However, prior to this, West Friendship had not developed, documented or implemented a system of internal controls over credit card and purchase order transactions. (In 2018, eight volunteers had active West Friendship credit cards.) For example:

- West Friendship did not require separation of duties between the requester and approver for purchases.
- West Friendship did not consistently receive and maintain detailed itemized receipts to support all purchase order and credit card payments.
- Oversight of the credit cards did not include periodic evaluations of individual use and need for each card.

The lack of detailed documentation has been commented on in several of our findings and limited our ability to determine the extent of certain conditions. We found that the lack of supporting documentation was pervasive and often related to purchases made by senior personnel, including the previous Chief and current Treasurer.

Chart B below shows the amount of unsupported credit card transactions for our review period and separates purchases made by the Treasurer and previous Chief. It also shows the percentage of total credit card transactions not supported by receipts.



Lack of internal controls increases the possibility of fraud and abuse and reduces the transparency of West Friendship's operations.

We recommend that West Friendship develop, document, and implement of system of internal controls which includes procedures for the credit card program, adequate separation of duties for ordering, requirements for approving and receiving purchases, and documentation to support all payments made by West Friendship.

West Friendship's Response:

West Friendship Volunteer Fire Department concurs with the finding but notes that, prior to the issuance of this response, West Friendship Volunteer Fire Department has developed and updated Standard Operating Procedures pertaining to the recommendation. As supported by the county's findings and Chart B, the new and updated Standard Operating Procedures have drastically increased accountability and documentation. This has led to the marked decrease in unsubstantiated credit card purchases.

OTHER FINDINGS – COUNTY:

Finding 8

The County does not provide training to the Corporations on proper accounting, procurement, and internal controls.

The County does not provide Corporation volunteers with training on use and control of County funds or procurement practices. As a result, the Corporations must develop and implement their own systems of controls which may not properly control County funds. The County Code authorizes the County Executive to establish rules and procedures regulating the method(s) of keeping books of account in accordance with proper accounting procedures.

We recommend that the County Administration and appropriate staff work with the Corporations to develop and implement a system of proper procurement and accounting procedures over County provided funds. In addition, to the extent needed, we recommend the County provide training to Corporation staff responsible for accounting for County funds.

Administration 's Response:

The Administration concurs with the finding. The County will work with the Fire Chief to implement a system of proper procurement procedures for the Corporations. The Department would prefer to manage the County funding to the Corporations through the County's Financial Management System, SAP. The issue we have had in the past has been the Corporations are not

considered employees of the County and therefore could not be given access to the system. Administration is currently working with the Department of Finance to consider options to better control County funds allocated to the Corporations.

Finding 9

Each Corporation's budget request was not submitted to the County Executive as required by the County Code.

Annually, each Corporation submits an itemized budget request to the Department of Fire and Rescue Services. The individual Corporation budgets are consolidated into two lines per Fire Station, one for quartermaster supplies and one for all other operating expenses, which are then submitted within the Department's annual budget. The County Executive does not receive the itemized request which details the intended use of County funds.

This is contrary to budget submissions from other agencies who are recipients of County funds, such as the Board of Education, Howard County Public Library, and the Howard Community College. These agencies submit detailed budget requests to the County Executive.

Title 17 Section 103 of the Howard County Code states that the Corporations shall file with the County Executive "a budget for the ensuing fiscal year detailing their anticipated revenues, operating expenses and capital expenditures from fire taxes and transfer tax for fire suppression, prevention and related functions, and emergency medical services, for which they are responsible. The budget shall be accompanied by a current fiscal financial report." The Code further states that the County Executive shall determine what amounts are required to provide services and include that amount in his budget submission to the Council. As a result of the current practice, the County Executive and the Budget Office do not have the ability to review each corporation's actual needs for the upcoming fiscal year.

We recommend that each Corporation provide their detailed budget request directly to the County Executive as required by the County Code. We also recommend that the Executive's staff review the requests and related financial reports to determine what appropriation the Corporations need for the following fiscal year, taking into consideration the current fund balance.

Administration's Response:

The Administration partially concurs with the finding. We believe the process as stated in the County Code to be outdated and not consistent with practice of the past 20 years. The Department is entertaining a proposal to amend the Code. In the meantime, the Corporations will be directed to submit their annual budget requests to the Budget Office for review as part of the Fire Budget Process.

Finding 10**The County and Corporations have not periodically reviewed or updated their Memorandum of Understanding.**

The County and Corporations have not reviewed or updated an existing Memorandum of Understanding (MOU) between the parties since December 31, 2001. The County Codes states that the County may enter into a MOU directly with a Corporation. The existing MOU includes the following provisions:

- The agreement shall become an integral part of the Master Plan and as such, subject to bi-annual renewal.
- Both parties agree to abide by pre-established regulations and the applicable sections of the Howard County Code.
- The County will provide funding to the Corporation as approved in the budget process.

We recommend that the County review the current MOU between the Corporations and the County and update as necessary to meet current requirements. We also recommend that the County review the MOU on a biannual basis.

Administration's Response:

The Administration concurs with this finding. The County will work with the Fire Chief to update the MOU between the Corporations and the County.

Sincerely,

A handwritten signature in blue ink, appearing to read 'CG', followed by a long horizontal flourish.

Craig Glendenning
County Auditor