

LEGISLATIVE FINANCIAL COMPLIANCE INSPECTION

Valley Volunteer Fire Department

FOR THE YEAR ENDING DECEMBER 31, 2010

REPORT OVERVIEW

- Commingled Accounts
- Lack of Supporting Documentation
- Improper Record Keeping



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WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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November 29, 2012

The Joint Committee on Government and Finance:

In compliance with the provisions of the West Virginia Code, Chapter 12, Article 4, Section 14 as amended, we conducted a compliance inspection and review of the financial transactions and records of the Valley Volunteer Fire Department's state funds for the calendar year ended December 31, 2010. We conducted our review and compliance inspection based on the criteria set forth by the Legislative Post Audit Division.

Respectfully submitted,

A handwritten signature in black ink that reads "Stacy L. Sneed".

Stacy L. Sneed, CPA, CICA, Director
Legislative Post Audit Division

SLS/nmh

VALLEY VOLUNTEER FIRE DEPARTMENT
January 1, 2010 – December 31, 2010

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VALLEY VOLUNTEER FIRE DEPARTMENT
January 1, 2010 – December 31, 2010

EXECUTIVE SUMMARY

Finding 1 Commingled

The Valley Volunteer Fire Department commingled State funds with funds from non State sources totaling \$2,710.10. Due to the commingling of state funds and lack of accurate financial records we were unable to determine if all expenditures were allowable and supported

Recommendation:

We recommend the Valley VFD maintain all state funds in a separate account and not commingled with funds received from other sources.

Finding 2 Lack of Support

Based on the documentation provided to us, the Valley Volunteer Fire Department lacked proper supporting documentation for expenditures totaling \$38,022.35.

Recommendation:

We recommend the Valley VFD maintain proper documentation for all expenditures and reimburse their state account \$38,022.35.

Finding 3 Improper Record Keeping

The Valley Volunteer Fire Department could not provide any reconciliations or ledgers to support their financial statement balances.

Recommendation:

We recommend the Valley VFD maintain sufficient records and reconciliations to protect the legal and financial rights of the VFD. Additionally, we recommend the Department ensure their statement of expenditures is filed correctly and that it is reconciled to their bank statements.

VALLEY VOLUNTEER FIRE DEPARTMENT
January 1, 2010 – December 31, 2010

INTRODUCTION

POST AUDIT AUTHORITY

The procedures were conducted pursuant to Chapter 12, Article 4, Section 14 of the West Virginia Code, which allows the Legislative Auditor to “assign an employee or employees to perform audits or reviews at the direction of the Legislative Auditor of the disbursement of state grant funds to volunteer fire departments.”

BACKGROUND

To provide additional revenue for the municipal firemen's pension and relief funds and for volunteer and part volunteer companies and departments, the West Virginia Legislature levied under Chapter 33, Article 3, Section 14d of the West Virginia Code, as amended in 2001, an additional premium tax equal to one percent of the taxable premiums collected for fire insurance and casualty insurance policies. Under this section of the Code, volunteer and part volunteer fire departments that are certified by the State Fire Marshal prior to each quarterly allocation are to receive 25 percent of the revenues generated by this premium tax.

In 1999, to provide additional revenue for the municipal fireman’s pension and relief funds and for volunteer and part volunteer companies and departments, the West Virginia Legislature levied under the provisions of Chapter 33, Article 12c, Section 9 of the West Virginia Code, as amended, a tax equal to four percent of the gross premiums and fees on excess line policies. These moneys are to be distributed in accordance with the provision of Chapter 33, Article 3, Section 14d, as amended.

The West Virginia Legislature again provided additional revenue for the volunteer and part volunteer fire departments by authorizing, under Chapter 33, Article 3, Section 33 of the West Virginia Code, as amended in 2001, a policy surcharge equal to one percent of the taxable premiums paid by policyholders of any fire insurance policy or casualty insurance policy. Under this section of the Code, 50 percent of the moneys collected are to be distributed to those volunteer and part volunteer fire departments and companies certified by the State Fire Marshal before each quarterly allocation.

Chapter 33, Article 3, Sections 14d and 33 provide that the volunteer fire departments receive distributions on an equal share basis and part volunteer fire departments receive a reduced amount based on the ratio of full-time paid firefighters who are members of the municipal firemen’s pension system to the total number of the members of the fire department. The moneys are to be distributed quarterly on the first day of the months of January, April, July and October of each year.

To receive these funds, the volunteer and part volunteer fire companies and departments must comply with the provisions of Chapter 8, Article 15, Section 8a of the West Virginia Code, as amended:

The Legislature placed restrictions on the use of these additional revenues by the volunteer fire departments under Chapter 8, Article 15, Section 8b of the West Virginia Code, as amended March 8, 2000, and again April 9, 2005.

Prior to the March 8, 2000 amendment, Chapter 8, Article 15, Section 8b did not allow Operating expenses as described in subsection (11) nor did the law prohibit the commingling of the funds with funds from other sources. Prior to the April 9, 2005 amendment, Chapter 8, Article 15, Section 8b did not allow Dues as described in subsection (12). On March 13, 2010, Chapter 8, Article 15, Section 8b was amended to include items (13) Workers' Compensation premiums, (14) Life insurance premiums to provide a benefit not to exceed \$20,000 for firefighter; and (15) Educational and training supplies and fire prevention promotional materials, not to exceed \$500 per year.

Chapter 12, Article 4, Section 14 of the West Virginia Code, as amended, requires an audit at the cost of the grantee, by an independent certified public accountant, of any person who receives State funds or grants in the amount of \$25,000 or more. The audit must be filed within two years of the end of the year in which the disbursement of the funds or grants occurred. The Legislature amended this section of the Code effective June 9, 1995, and again effective July 1, 2005 providing an alternative to an audit for volunteer fire departments. In lieu of an audit, volunteer fire departments may file a sworn statement of annual expenditures to the Legislative Auditor's Office on or before July 1, of each year. If the sworn statement of annual expenditures is not filed by the first day of July, the Legislative Auditor shall notify the State Treasurer who shall withhold any payment that would otherwise be distributed to the fire department.

Chapter 12, Article 4, Section 14 as amended March 8, 2000, and again April 9, 2005 provides that the Legislative Auditor may perform random audits of the volunteer fire departments. This section also requires that the volunteer fire department shall cooperate with the Legislative Auditor's Office in performing their duties under this section. If the Legislative Auditor determines a volunteer fire department is not cooperating, the Legislative Auditor shall notify the State Treasurer who shall withhold payment of any amount that would otherwise be distributed to the department until such time that the Legislative Auditor informs the Treasurer that the fire department has cooperated as required by this section.

VALLEY VOLUNTEER FIRE DEPARTMENT
January 1, 2010 – December 31, 2010

OFFICERS AND STAFF

John HessonPresident

Elza Black.....Fire Chief

VALLEY VOLUNTEER FIRE DEPARTMENT
January 1, 2010 – December 31, 2010

SCOPE

We conducted an evaluation of the revenue and expenditure transactions, and other records of the Valley Volunteer Fire Department's state accounts for the year ending December 31, 2010. Our scope included determining instances of noncompliance with Chapter 8, Article 15, Section 8b of the West Virginia code, and other applicable laws and regulations. The Compliance inspection was conducted in accordance with criteria set forth by the Legislative Post Audit Division.

OBJECTIVES AND METHODOLOGIES

The objective of our report was to review expenditures from the Department's state fund to ensure all expenditures were allowable and supported, and to report any unlawful expenditures that we find. Additionally, we were to examine the spending unit's financial transactions and records to evaluate its compliance with applicable State laws, rules and regulations.

Our sample of Departments to test was randomly selected by district, after determining a population of all Departments for which a report has not been issued.

This communication is intended solely for the information and use of the Post Audit Subcommittee, the members of the WV Legislature, and the Volunteer Fire Department. However, once released by the Post Audit Subcommittee, this report is a matter of public record and its distribution is not limited.

Our reports are designed to assist the Post Audit Subcommittee in exercising its legislative oversight function and to provide constructive recommendations for improving the operations of Volunteer Fire Departments. As a result, our reports generally do not address activities we reviewed that are functioning properly.

CONCLUSIONS

Based on our review, due to the commingling of state funds and lack of accurate financial records, we were unable to determine if all expenditures were allowable and supported. However, based on the documents provided, we noted expenditures totaling \$38,022.35 that lacked proper documentation. In addition, we noted the Department commingled State funds with funds from non State sources totaling \$2,710.10. Finally, we noted the Department could not provide any reconciliations or ledgers to support their financial statement balances. We recommend the Department reimburse their state account a total of \$38,022.35 for items that lacked support. We also recommend the Department maintain sufficient records and reconciliations to protect the legal and financial rights of the VFD. Furthermore, we recommend the Department ensure their statement of expenditures is filed correctly and that it is reconciled to their bank statements. Finally, we noted the Board of Governors did not properly review, maintain custody and oversee the Department's records.

EXIT CONFERENCE

We discussed this report with the Chief of the Valley Volunteer Fire Department on September 6, 2012. All findings and recommendations were reviewed and discussed.

VALLEY VOLUNTEER FIRE DEPARTMENT
January 1, 2010 – December 31, 2010

FINDINGS

FINDING 1 COMMINGLED:

The Valley Volunteer Fire Department commingled State funds with funds from non State sources totaling \$2,710.10.

CONDITION:

We noted the fire department made the following deposits from other sources into their State account:

<u>BANK REFERENCE</u>	<u>DEPOSIT</u>		
<u>NO.</u>	<u>DATE</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
046011500	7/6/2010	\$710.10	Deposit from undetermined source
050700211	12/20/2010	<u>\$2,000.00</u>	In-Person Transfer as per Nicholas Miller
	Total	\$2,710.10	

Deposits recorded on the state bank statements for July and December in the amounts of \$710.10 and \$2,000.00 respectively are from sources other than deposits made from quarterly treasury deposits. The department did not provide information concerning these deposits. The department did not provide any ledgers or reconciliation for balances shown on their statement of expenditures.

CRITERIA:

Chapter 8, Article 15, Section 8(b) of the West Virginia Code, as amended, states in part:

“Authorized expenditures of revenues from the municipal pensions and protection fund and the fire protection fund.

Revenues allocated to volunteer and part volunteer fire companies and departments may be expended only for the items listed in subdivisions (1) through (15) of this section. Funds received from the state for

volunteer and part volunteer fire companies and departments, pursuant to sections fourteen-d and thirty-three, article three, and section seven, article twelve-c, all of chapter thirty-three of this code, **may not be commingled with funds received from any other source.” Emphasis Added**

CAUSE:

The Board of Governors did not assure that the department maintained State funds in an account separate from its non State funds.

EFFECT:

Due to the commingling of funds, we may be unable to determine if all expenditures made from state funds were allowable and/or properly documented.

RECOMMENDATION:

We recommend Valley VFD maintain all state funds in a separate account and not commingled with funds received from other sources.

FINDING 2 LACK OF SUPPORT:

Based on the documentation provided to us, the Valley Volunteer Fire Department lacked proper supporting documentation for expenditures totaling \$38,022.35.

CONDITION:

We noted the following expenditures made by the fire department lacked proper supporting documentation:

<u>CHECK NO.</u>	<u>INVOICE DATE</u>	<u>PAYEE</u>	<u>AMOUNT</u>	<u>LACK OF SUPPORT</u>
1110	No invoice	City Ice & Fuel	\$1,069.30	Invoice
1111	No invoice	City Ice & Fuel	492.83	Invoice
1113	No invoice	City Ice & Fuel Company	1,056.34	Invoice
1114	No invoice	Brickstreet Insurance Company	1,066.50	Invoice
1115	No invoice	City Ice & Fuel	498.54	Invoice
1116	No invoice	City Ice & Fuel	800.52	Invoice
1117	No invoice	City Ice & Fuel	1,941.30	Invoice
1118	No invoice	United Power	4,700.00	Invoice
1119	No invoice	Neville Automotive, Inc.	246.39	Invoice
1121	No invoice	Jerry Adkins	2,000.00	Invoice
1122	No invoice	Farmers Bank	<u>24,150.63</u>	Invoice
		Total	\$38,022.35	

CRITERION:

Chapter 8, Article 15, Section 8(b) of the West Virginia Code, as amended, states in part:

“Authorized expenditures of revenues from the municipal pensions and protection fund and the fire protection fund.

Revenues allocated to volunteer and part volunteer fire companies and departments may be expended only for the items listed in subdivisions (1) through (15) of this section. Funds received from the state for volunteer and part volunteer fire companies and departments, pursuant to sections fourteen-d and thirty-three, article three, and section seven, article twelve-c, all of chapter thirty-three of this code, may not be commingled with funds received from any other source.”

CAUSE:

The Board of Governors failed to review and ensure that all department expenditures were properly supported.

EFFECT:

There is a higher risk of fraud when expenditures lack proper supporting documentation. Due to the lack of proper supporting documentation, we were unable to make any determination as to possible fraud or if these expenditures were allowable.

RECOMMENDATION:

We recommend the Valley VFD maintain proper documentation for all expenditures and reimburse their state account \$38,022.35.

FINDING 3 IMPROPER RECORD KEEPING:

The Valley Volunteer Fire Department could not provide any reconciliations or ledgers to support their financial statement balances.

CONDITION:

We noted the following:

- A net difference of \$1,546.50 between distributions per the bank statements (\$39,568.85) and lack of supporting documentation per our audit (\$38,022.35). This is also the difference between the allowable expenditures per our audit (\$1,546.50) and the expenditures per line items 4(1) through 4(15) of their statement of expenditures (financial statement), which is \$0.
- A net difference of -\$10,116.19 between the department's beginning balance per the bank statement (\$8,457.19) and its beginning balance per line 1 of the financial statement (\$18,573.38). The department did not provide a reconciliation of their beginning financial statement balance. Therefore, we are unable to determine the cause of this difference.
- A net difference of -\$11,678.32 between the amount the department received from the State per the bank statement (\$43,821.69) and the amount it received from the State per line 2 of the financial statement (\$55,500.01). The department did not provide a reconciliation or list of deposits to support the amount shown in line 2 of their financial statement. We are unable to determine the cause of this difference. However, it appears the department reported its January deposit twice.
- A difference of \$2,710.10 between deposits from other sources per the bank statements (\$2,710.10) and the deposits from other sources per the financial statement (\$0). Deposits recorded on the State bank statements for July and December in the amounts of \$710.10 and \$2,000.00 respectively are from sources other than deposits made from quarterly treasury deposits. The department did not provide information concerning these deposits.
- A net difference of -\$8,968.22 between the department's total receipts (from State and non-State sources) per the bank statements (\$46,531.79) and the department's total receipts per line 2 of the financial statement (\$55,500.01). This is the sum of the difference between the amount received from the State per the bank statements and the amount received from the State per line 2 of the financial statement, (-\$11,678.32), plus the difference between the deposits from other sources per the bank statement and the deposits from other sources per the financial statement (\$2,710.10).
- Total disbursements shown on all State bank statements (January through December 2010) were \$39,568.85. The department did not show any amounts for line items 4(1) through 4(15) on their statement of expenditures (financial statement). The amount shown for total disbursements on line 4 (\$55,500.01) is the same total as shown on line 2 for total receipts (\$55,500.01). We noted the beginning balance per the financial statement of \$18,573.38 plus deposits per the financial statement of \$55,500.01 less the ending balance shown on line 7 of the financial statement (\$15,420.13) is calculated as \$58,653.26 in expenditures per the financial statement $(\$18,573.38 + \$55,500.01) - \$15,420.13 = \$58,653.26$. Total disbursements

per State bank statements (\$39,568.85) less calculated disbursements per statement of expenditures (financial statement) (\$58,653.26) equals -\$19,084.41 (\$39,568.85 - \$58,653.26 = -\$19,084.41). The department did not provide a ledger or reconciliation to support the balances on their statement of expenditures (financial statement). We were unable to determine the cause of this difference.

CRITERION:

The department is responsible for keeping adequate records for a reasonable period of time. The department should make and maintain records containing adequate and proper documentation designed to furnish information to protect the legal and financial rights of the department.

WV Code 12-4-14(i) states in part,

“Any person who files a fraudulent sworn statement of expenditures under subsection (b) or (g) of this section, a fraudulent sworn statement under subsection (d) of this section or a fraudulent report under this section is guilty of a felony and, upon conviction thereof, shall be fined not less than one thousand dollars nor more than five thousand dollars or imprisoned in a state correctional facility for not less than one year nor more than five years, or both fined and imprisoned.”

CAUSE:

The Board of Governors failed to ensure that there were accurate reconciliations or ledgers to support the department’s financial statement balances. Also, the Board failed to ensure the department’s statement of expenditures (financial statement) was filed correctly and reconciled to the department’s bank statements.

EFFECT:

Due to improper record keeping there is a greater risk of error or fraud. Also due to improper record keeping, there may be insufficient information to protect the legal and financial rights of the department and of persons directly affected by the department’s activities. Additionally, if the department filed a fraudulent statement of expenditures, the person filing the statement may be guilty of a felony.

RECOMMENDATION:

We recommend the Valley VFD maintain sufficient records and reconciliations to protect the legal and financial rights of the VFD. Additionally, we recommend the Department ensure their statement of expenditures is filed correctly and that it is reconciled to their bank statements.

VALLEY VOLUNTEER FIRE DEPARTMENT
January 1, 2010 – December 31, 2010

SUPPLEMENTAL INFORMATION
STATEMENT OF EXPENDITURES YEAR ENDED DECEMBER 31, 2010

<u>Authorizing W.Va Code</u>	AUDIT	VFD	DIFFERENCES
Chapter 8, Article 15, Section 8b(1)	\$0.00	\$0.00	\$0.00
Chapter 8, Article 15, Section 8b(2)	0.00	0.00	0.00
Chapter 8, Article 15, Section 8b(3)	0.00	0.00	0.00
Chapter 8, Article 15, Section 8b(4)	576.00	0.00	576.00 b
Chapter 8, Article 15, Section 8b(5)	0.00	0.00	0.00
Chapter 8, Article 15, Section 8b(6)	0.00	0.00	0.00
Chapter 8, Article 15, Section 8b(7)	0.00	0.00	0.00
Chapter 8, Article 15, Section 8b(8)	0.00	0.00	0.00
Chapter 8, Article 15, Section 8b(9)	0.00	0.00	0.00
Chapter 8, Article 15, Section 8b(10)	0.00	0.00	0.00
Chapter 8, Article 15, Section 8b(11)	0.00	0.00	0.00
Chapter 8, Article 15, Section 8b(12)	0.00	0.00	0.00
Chapter 8, Article 15, Section 8b(13)	970.50	0.00	970.50 b
Chapter 8, Article 15, Section 8b(14)	0.00	0.00	0.00
Chapter 8, Article 15, Section 8b(15)	0.00	0.00	0.00
Total Disbursements For Year			
Ended December 31, 2010	\$1,546.50	\$0.00	\$1,546.50 a

a = Difference between Bank distributions and Financial Statement distributions:
 Audit determined that \$576.00 in distributions should be
 under Line Item #4, but the VFD did not put anything on their Financial Statement = \$576.00

Audit determined that \$970.50 in distributions should be
 under Line Item #13, but the VFD did not put anything on their Financial Statement = \$970.50
 Total = \$1,546.50

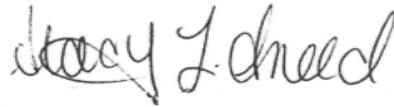
b = The department did not provide Line Item totals or ledgers to support their Financial Statement.
 Therefore, we are unable to determine the difference between the
 audited amounts and the Financial Statement amounts.

STATE OF WEST VIRGINIA

OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:

I, Stacy L. Sneed, CPA, CICA, Director of the Legislative Post Audit Division, do hereby certify that the report appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 11th day of December 2012.



Stacy L. Sneed, CPA, CICA, Director
Legislative Post Audit Division

Notification of when the report was released and the location of the report on our website was sent to the Secretary of the Department of Administration to be filed as a public record. Report release notifications were also sent to the Governor; Attorney General; State Auditor; and State Fire Marshal. Copies forwarded to the Valley Volunteer Fire Department; Prosecuting Attorney, Mason County; County Clerk, Mason County.