

# LEGISLATIVE FINANCIAL COMPLIANCE INSPECTION

## JOHNSTOWN VOLUNTEER FIRE DEPARTMENT

FOR THE YEAR ENDING JUNE 30, 2011

### REPORT OVERVIEW

- Lack of Support
- Unallowable
- Lack of Support for Grant Expenditures



### WEST VIRGINIA LEGISLATIVE AUDITOR POST AUDIT DIVISION



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## LEGISLATIVE POST AUDITS SUBCOMMITTEE

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Mike Hall

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Speaker Tim Miley, Chairman  
Harry Keith White  
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### WEST VIRGINIA LEGISLATIVE AUDITOR LEGISLATIVE POST AUDIT DIVISION

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**WEST VIRGINIA LEGISLATURE**  
*Joint Committee on Government and Finance*

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September 17, 2013

The Joint Committee on Government and Finance:

In compliance with the provisions of the W.Va. Code, §12-4-14 as amended, we conducted a compliance inspection and review of the financial transactions and records of the Johnstown Volunteer Fire Department's state funds for the fiscal year ended June 30, 2011. 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 cursive script that reads "Stacy L. Sneed".

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

SLS/rwa

**JOHNSTOWN VOLUNTEER FIRE DEPARTMENT**  
**July 1, 2010 – June 30, 2011**

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**JOHNSTOWN VOLUNTEER FIRE DEPARTMENT**  
**July 1, 2010 – June 30, 2011**

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**EXECUTIVE SUMMARY**

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**FINDING 1 LACK OF SUPPORT:**

The Fire Department lacked proper supporting documentation for expenditures totaling \$402.28.

**Recommendation:**

We recommend the department maintain proper documentation for all expenditures made from state funds and reimburse their state account \$402.28 for expenditures that lacked support.

**FINDING 2 UNALLOWABLE:**

The Johnstown Volunteer Fire Department made \$1,257.60 in expenditures identified from state funds that were not allowed by W. Va. Code §8-15-8(b), as amended.

**Recommendation:**

We recommend the state revenues allocated to the Fire Department only be used for expenditures, as authorized by W. Va. Code §8-15-8(b), as amended. We further recommend the Department reimburse their state account \$1,257.60 for items that were unallowable.

**FINDING 3 LACK OF SUPPORT FOR GRANT EXPENDITURES:**

The Department could not provide their invoice to document their grant expenditures.

**Recommendation:**

We recommend the department maintain and review all grant agreements and original invoices to support their grant expenditures.

**Response:**

The department agreed with all findings and recommendations.

**JOHNSTOWN VOLUNTEER FIRE DEPARTMENT**  
**July 1, 2010 – June 30, 2011**

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**INTRODUCTION**

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**POST AUDIT AUTHORITY**

The procedures were conducted pursuant to W. Va. Code, §12-4-14, 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 W. Va. Code, §33-3-14d, 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 W. Va. Code, §33-12c-9, 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 W. Va. Code, §33-3-14d, as amended.

The West Virginia Legislature again provided additional revenue for the volunteer and part Volunteer Fire Departments by authorizing, under W. Va. Code, §33-3-33, 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.

W. Va. Code, §33-3-14d 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 W. Va. Code, §8-15-8a, as amended:

The Legislature placed restrictions on the use of these additional revenues by the Volunteer Fire Departments under W. Va. Code, §8-15-8b, as amended March 8, 2000, and again April 9, 2005.

Prior to the March 8, 2000 amendment, W. Va. Code, §8-15-8b 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, W. Va. Code, §8-15-8b did not allow Dues as described in subsection (12). On March 13, 2010, W. Va. Code, §8-15-8b 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.

W. Va. Code, §12-4-14, 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.

W. Va. Code, §12-4-14 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.

**JOHNSTOWN VOLUNTEER FIRE DEPARTMENT**  
**July 1, 2010 – June 30, 2011**

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**OFFICERS AND STAFF**

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Wayne S. Lewis .....President  
Virginia Chapman.....Treasurer  
Keith Marple. ....Secretary  
John Chapman.....Fire Chief



**JOHNSTOWN VOLUNTEER FIRE DEPARTMENT**  
**July 1, 2010 – June 30, 2011**

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**SCOPE**

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We conducted an evaluation of the revenue and expenditure transactions, and other records of the Johnstown Volunteer Fire Department's state accounts for the year ending June 30, 2011. Our scope included determining instances of noncompliance with W. Va. Code, §8-15-8b, and other applicable laws and regulations. The Compliance inspection was conducted in accordance with criteria set forth by the Legislative Post Audit Division.

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**OBJECTIVES AND METHODOLOGIES**

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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. Our sample also included specific departments selected for audit at the request of the Fire Marshal or by Legislative Post Audit.

We scheduled all canceled checks that were submitted regarding State funds, accounting for every check number in sequence. We matched these checks to the proper invoices and noted any lack of documentation and any instances of noncompliance with W. Va. Code, §8-15-8b, as amended. We reviewed the bank statements to determine if the account was commingled, or if any other deposits were made during the year that did not come from the WV State Treasurer. While reviewing the bank statements we also looked for any other electronic debits or credits or bank service charges. For all State grants awarded to the department for our audit period we requested and reviewed the grant agreement, supporting invoices, bank statements, checks, ledgers, and sworn statement of expenditures, if applicable, to determine if expenditures for the grant were allowable and properly documented.

We made copies of any documents that were questionable. We developed a list of any missing documentation and sent it with a letter to the Fire Chief of the Department to give them a minimum of one week to find any missing documents and to explain any discrepancies we might have with the amount reported by the Department versus the audited amount. We prepared our findings if applicable and report after the deadline had passed. We discussed this report with the Department and explained they would get a copy of the report when it is presented to the Subcommittee.

Our reports are designed to assist the Post Audits Subcommittee in exercising its legislative oversight function and to provide constructive recommendations for improving the operations of Volunteer Fire Departments.

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### **CONCLUSIONS**

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Based on our review, we determined the department lacked proper support for expenditures totaling \$402.28; made \$1,257.60 in expenditures identified from state funds that were not allowed by W. Va. Code §8-15-8(b), as amended; and the Department could not provide an invoice to document their grant expenditures

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### **EXIT CONFERENCE**

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We discussed this report with the Treasurer of the Johnstown Volunteer Fire Department on 10/28/2013. All findings and recommendations were reviewed and discussed. The department agreed with all findings and recommendations.

**JOHNSTOWN VOLUNTEER FIRE DEPARTMENT**  
**July 1, 2010 – June 30, 2011**

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**FINDING**

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**FINDING 1 LACK OF SUPPORT:**

**CONDITION:**

Based on the documentation provided to us, the Johnstown Volunteer Fire Department lacked proper supporting documentation for expenditures totaling \$402.28. We noted the Fire Department could not provide proper documentation for the following expenditures:

<u>CHECK NO.</u>	<u>CHECK DATE</u>	<u>PAYEE</u>	<u>Amount</u>	<u>Description</u>
828	8/28/2010	D.C.'s	\$60.15	invoice
844	12/4/2010	D.C.'s	51.18	itemized receipt
851	void	void	0.00	voided check
853	1/24/2011	Dominion Hope	35.00	invoice for balance forward
860	2/18/2011	D.C.'s	75.00	itemized receipt
869	void	void	0.00	voided check
882	5/16/2011	Whitney Chapman	80.95	invoice
889	6/13/2011	WV Fireman's Assoc.	<u>100.00</u>	invoice
		Total	\$402.28	

**CRITERIA:**

W. Va. Code §8-15-8(b), 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 Department did not have sufficient procedures in place to insure that all expenditures are properly documented.

**EFFECT:**

There is a greater risk for fraud and abuse when expenditures are not properly documented. Due to the lack of proper supporting documentation, we were unable to determine if these expenditures were allowable.

**RECOMMENDATION:**

We recommend the department maintain proper documentation for all expenditures and reimburse their State account \$402.28 for expenditures that lacked proper support.

**FINDING 2 UNALLOWABLE:**

**CONDITION:**

The Johnstown Volunteer Fire Department made \$1,257.60 in expenditures identified from state funds that were not allowed by W. Va. Code §8-15-8(b), as amended.

We determined the following items were purchased with State money that was not allowable under the West Virginia Code:

<u>CHECK NO.</u>	<u>CHECK DATE</u>	<u>PAYEE</u>	<u>Amount</u>	<u>Description</u>
842	11/20/2010	Bill Bailey Insurance Agency	\$1,236.00	Accident & Sickness
876	4/12/2011	H & R Block	<u>21.60</u>	Sales tax
		Total	\$1,257.60	

**CRITERION:**

W. Va. Code §8-15-8(b), 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.”

Publication TSD-320 of the West Virginia Tax Department, states in part:

“Certain nonprofit organizations purchasing tangible personal property or taxable services to be used or consumed in the organization’s nonprofit activities **are exempt** from payment of the consumer sales tax or use tax on those purchases.”

**CAUSE:**

The Department may not have sufficient knowledge of W. Va. Code §8-15-8(b) to determine allowable expenditures under the Code.

**EFFECT:**

Due to unallowable expenditures, the Department may have less funding available for expenditures required for effective and efficient fire protection services.

**RECOMMENDATION:**

We recommend the state revenues allocated to the Fire Department only be used for expenditures as authorized by W. Va. Code §8-15-8(b), as amended. We further recommend the Department reimburse their state account \$1,257.60 for items that were unallowable.

**FINDING 3 LACK OF SUPPORT FOR GRANT EXPENDITURES:**

**CONDITION:**

The department was awarded grant ID G110741 dated 07/01/2010 in the amount of \$1,000.00 from the DHHR for Equipment and supplies. The Department could not provide an invoice to document their grant expenditures.

**CRITERIA:**

Section 148-18-5.3 of the Code of State Rules states in part:

“Sworn Statements of Expenditures Made Under Grants.

A sworn statement of expenditures shall include at least:

A listing of expenditures to include, at a minimum, the level of detail (categories, line items, cost centers, etc.) as contained within the related grant budget.”

**CAUSE:**

According to the Department, they could not locate the invoice identified on their sworn statement of expenditures. The Department does not have sufficient procedures in place to insure that all grant expenditures were properly documented.

**EFFECT:**

There is a greater risk for fraud and abuse when expenditures are not properly documented. Due to the lack of proper supporting documentation, we were unable to determine if these expenditures were allowable.

**RECOMMENDATION:**

We recommend the department maintain and review all grant agreements and original invoices to support their grant expenditures.

**JOHNSTOWN VOLUNTEER FIRE DEPARTMENT**  
**July 1, 2010 – June 30, 2011**

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**SUPPLEMENTAL INFORMATION**  
**STATEMENT OF EXPENDITURES YEAR ENDED JUNE 30, 2011**

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<u>Authorizing W.Va Code</u>	<u>AUDIT</u>	<u>VFD</u>	<u>DIFFERENCES</u>	
Chapter 8, Article 15, Section 8b(1)	\$714.62	\$714.62	\$0.00	
Chapter 8, Article 15, Section 8b(2)	4,068.38	4,298.38	-230.00	<b>b</b>
Chapter 8, Article 15, Section 8b(3)	365.00	365.00	0.00	
Chapter 8, Article 15, Section 8b(4)	1,174.17	814.38	359.79	<b>c</b>
Chapter 8, Article 15, Section 8b(5)	2,199.73	2,056.77	142.96	<b>d</b>
Chapter 8, Article 15, Section 8b(6)	17,421.87	17,421.87	0.00	
Chapter 8, Article 15, Section 8b(7)	1,957.09	1,992.09	-35.00	<b>e</b>
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)	7,330.10	10,811.10	-3,481.00	<b>f</b>
Chapter 8, Article 15, Section 8b(11)	1,360.11	1,456.00	-95.89	<b>g</b>
Chapter 8, Article 15, Section 8b(12)	525.00	650.00	-125.00	<b>h</b>
Chapter 8, Article 15, Section 8b(13)	3,361.00	1,116.00	2,245.00	<b>i</b>
Chapter 8, Article 15, Section 8b(14)	0.00	0.00	0.00	
Chapter 8, Article 15, Section 8b(15)	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	
Total Disbursements For Year Ended June 30, 2011	\$40,477.07	\$41,696.21	-\$1,219.14	<b>a</b>

a = Differences between total audited distributions and total distributions reported on financial statement:

Items that lack proper support	-\$402.28
Unallowable items	-\$1,257.60
Check 862 included on bank statement, not included on financial statement.	<u>\$440.74</u>
Total	-\$1,219.14

b, c, d, e, f, g, h, i = Incorrect coding of line items plus above noted items that lacked support, were unallowable, or were reconciling items

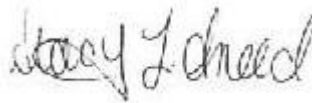


**STATE OF WEST VIRGINIA**

**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 W. Va. Code, §4-2, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 13<sup>th</sup> day of November 2013.



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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 were 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 Johnstown Volunteer Fire Department; Prosecuting Attorney, Harrison County; County Clerk, Harrison County.