

LEGISLATIVE FINANCIAL COMPLIANCE INSPECTION

INSTITUTE VOLUNTEER FIRE DEPARTMENT

FOR THE PERIOD JULY 1, 2009 - JUNE 30, 2010

INSPECTION OVERVIEW

- Not Allowable Expenditures
- Lack of Supporting Documentation



WEST VIRGINIA LEGISLATIVE AUDITOR
POST AUDIT DIVISION



Aaron Allred - *Legislative Auditor*
Stacy Sneed, CPA - *Director*

Room 329 W, Building 1
1900 Kanawha Boulevard East
Charleston, West Virginia 25305
phone: (304) 347-4880

LEGISLATIVE POST AUDIT SUBCOMMITTEE

Senate

Acting President Jeff Kessler, Chairman
Roman Prezioso
Mike Hall

House

Speaker Richard Thompson, Chairman
Harry Keith White
Tim Armstead

WEST VIRGINIA LEGISLATIVE AUDITOR LEGISLATIVE POST AUDIT DIVISION

Aaron Allred
Legislative Auditor

Stacy L. Sneed, CPA, CICA
Director

Ronald W. Ash
Auditor-in-Charge

Nathan Hamilton
Auditor I

Legislative Post Audit Division
Building 1, Room W-329
1900 Kanawha Blvd., East
Charleston, WV 25305-0610
(304) 347-4880

Post audit reports are available on-line at
http://www.legis.state.wv.us/Joint/postaudit/vfd_audits.cfm

For more information about the Legislative Post Audit Division, please visit our website at
www.legis.state.wv.us/Joint/postaudit/postaudit.cfm

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

Stacy L. Sneed, CPA, CICA, Director
Legislative Post Audit Division
Building 1, Room W-329
1900 Kanawha Blvd., E.
Charleston, West Virginia 25305-0610



Area Code (304)
Phone: 347-4880
Fax: 347-4889

July 22, 2011

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 Institute Volunteer Fire Departments state funds for the fiscal year ended June 30, 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 cursive script that reads "Stacy L. Sneed".

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

SLS/rwa

INSTITUTE VOLUNTEER FIRE DEPARTMENT
July 1, 2009 – June 30, 2010

TABLE OF CONTENTS

Executive Summary	2
Introduction	3
Post Audit Authority	3
Background.....	3
Officers and Staff	5
Scope	6
Objectives, Methodologies, and Conclusions	6
Exit Conference	7
Finding	8
Supplemental Information – Statement	10
Certificate of Director, Legislative Post Audit Division	11

INSTITUTE VOLUNTEER FIRE DEPARTMENT
July 1, 2009 – June 30, 2010

EXECUTIVE SUMMARY

Institute VFD Kanawha County	For the Period July 1, 2009 – June 30, 2010
Not Allowable Items	\$1,421.00
Lack of Supporting Documentation	<u>378.51</u>
Total	<u>\$1,799.51</u>

RECOMMENDATIONS:

We recommend the Institute VFD initiate sufficient internal control changes, including proper segregation of duties, reconciliations and oversight, to safeguard all state assets. We further recommend that the VFD discontinue writing checks for cash. We also recommend the VFD reimburse their state account \$1,799.51, and pursue restitution and criminal prosecution for all suspected fraudulent transactions. We further recommend they engage an independent CPA to conduct an audit of all other accounts.

RESPONSE:

The VFD agrees with all findings. They have contacted an independent CPA to conduct an audit of non state funds. They agree to reimburse their state account as soon as monies are available. The VFD's Governing Board voted to require the bank to have two signatures on all checks. The state bank account was changed accordingly.

INSTITUTE VOLUNTEER FIRE DEPARTMENT
July 1, 2009 – June 30, 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.

INSTITUTE VOLUNTEER FIRE DEPARTMENT
July 1, 2009 – June 30, 2010

OFFICERS AND STAFF

Douglas Tench..... President of the Governing Board
Frank C. Walker Vice President of the Governing Board
Tameka Roy..... Secretary
Frank C. Walker Acting Treasurer
Patrick A. Higginbotham Fire Chief

INSTITUTE VOLUNTEER FIRE DEPARTMENT
July 1, 2009 – June 30, 2010

SCOPE

We conducted a review of the revenue and expenditure transactions, and other records of the Institute 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 review was conducted in accordance with criteria set forth by the Legislative Post Audit Division.

OBJECTIVES AND METHODOLOGIES

The objective of our examination was to review expenditures from the Departments 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, and 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 un-audited Departments.

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

The Institute Volunteer Fire Department could not provide documentation to support transactions totaling \$1,421.00. Of this amount, VFD personnel suspect fraud occurred in two transactions totaling \$1,221.00. Additionally, the Institute Volunteer Fire Department had unallowable transactions totaling \$378.00.

EXIT CONFERENCE

We discussed this report with the current Treasurer of the Institute VFD on July 25, 2011. The Treasurer agreed to all findings.

INSTITUTE VOLUNTEER FIRE DEPARTMENT
July 1, 2009 – June 30, 2010

FINDING

FINDING 1:

The Institute Volunteer Fire Department could not provide documentation to support transactions totaling \$1,421. Of this amount, VFD personnel suspect fraud occurred in two transactions totaling \$1,221. Additionally, the Institute Volunteer Fire Department had unallowable transactions totaling \$378.51.

CONDITION:

Undocumented Transactions

The Institute Volunteer Fire Department could not provide documentation to support transactions totaling \$1,421. According to statements made and documentation provided by the current acting treasurer, the former treasurer is suspected of committing fraud by misappropriating a total of \$1,221 from the state account. The current acting treasurer also indicated that additional suspected fraudulent activity was detected in the non-state account. We could not make a determination on whether fraud occurred due to a lack of documentation.

According to the current acting treasurer, the former treasurer is suspected of fraudulently writing, and subsequently cashing, check #1511 totaling \$371.00 and check #1512 totaling \$850.00 from the state account. These checks were made payable to cash and contained only the former treasurer's signature. According to the current treasurer, the purpose for writing these checks is unknown and documentation to support the checks could not be located and provided to us.

According to the current acting treasurer, it was the policy of the VFD to have two signatures on all checks. However, the former treasurer was able to cash the checks with only one signature. This was possible because (1) the treasurer had access to the checks and, (2) although two signatures were required in accordance with the VFD's policy, checks with only one signature could be cashed since the signature card on file at the bank used by the VFD only required a single signature for check cashing purposes. Documentation provided to us by the treasurer indicated that the board has subsequently requested the bank to require two signatures on all checks. Additionally, according to the current acting treasurer, any check over the amount of \$200 must be approved by the VFD's board. The current acting treasurer stated that the checks written by the former treasurer had not been authorized by the board. As of the time of this finding, the department has not pursued prosecution for the suspected fraudulent checks.

Also, an undocumented cash EFT transfer of \$200.00 was made by the treasurer on 8-20-09. We requested documentation for this transaction. However, the department did not provide us with the requested documentation.

The following schedule summarizes the undocumented transactions as described above:

CHECK NO.	CHECK DATE	PAYEE	UNDOCUMENTED AMOUNT	DESCRIPTION
1511	08/20/2009	Cash	\$ 371.00	Undocumented
1512	08/20/2009	Cash	850.00	Undocumented
EFT	08/20/2009	EFT Cash Transfer	<u>200.00</u>	Undocumented
		Total	<u>\$1,421.00</u>	

Unallowable Transactions

Unallowable TV cable service, totaling \$378.51, was paid for using state funds. Authorized expenditures are allowed only if required in the normal course of providing effective and efficient fire protection service.

The following schedule summarizes the unallowable transactions as described above:

CHECK NO.	CHECK DATE	PAYEE	UNALLOWABLE AMOUNT	DESCRIPTION
1508	08/06/2009	Suddenlink	\$ 62.44	Cable Service
1543	03/24/2010	Suddenlink	155.70	Cable Service
1554	05/17/2010	Suddenlink EFT	<u>160.37</u>	Cable Service
		Total	<u>\$378.51</u>	

Other Transactions

We noted that check #1524, totaling \$411.60, was made payable to cash with only the treasurer's signature and was cashed by the current acting treasurer. This check was supported by a receipt. According to the acting treasurer, the vendor would not accept a check and requested cash. According to the current acting treasurer these funds were used for truck repair. Although this transaction was properly supported and was for an allowable expenditure, we believe that the practice of writing checks for cash increases the risk of fraud and, therefore, should be discontinued.

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:

Concerning the undocumented transactions, according the current acting treasurer, suspected fraudulent checks were issued for cash with only the signature of the former treasurer. The VFD's Governing Board voted to require the bank to have two signatures on all checks. The state bank account was changed accordingly.

Concerning the unallowable transactions, the VFD was not aware that TV cable services were not allowable.

EFFECT:

Possible fraud has occurred due to the lack of proper internal control. Due to possible fraud and unallowable expenditures, the VFD has less funding for allowable expenditures required for effective and efficient fire protection service.

RECOMMENDATION:

We recommend the Institute VFD initiate sufficient internal control changes, including proper segregation of duties, reconciliations and oversight, to safeguard all state assets. We further recommend that the VFD discontinue writing checks for cash. We also recommend the VFD reimburse their state account \$1,799.51, and pursue restitution and criminal prosecution for all suspected fraudulent transactions. We further recommend they engage an independent CPA to conduct an audit of all other accounts.

INSTITUTE VOLUNTEER FIRE DEPARTMENT
July 1, 2009 – June 30, 2010

SUPPLEMENTAL INFORMATION
STATEMENT OF EXPENDITURES FOR THE PERIOD
JULY 1, 2009 – JUNE 30, 2010

D	A	B	C	
<u>Authorizing W.Va Code</u>	<u>VFD</u>	<u>AUDIT</u>	<u>DIFFERENCES</u>	
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)	0.00	0.00	0.00	
Chapter 8, Article 15, Section 8b(5)	957.59	957.59	0.00	
Chapter 8, Article 15, Section 8b(6)	30,105.30	30,105.30	0.00	
Chapter 8, Article 15, Section 8b(7)	4,007.14	3,646.66	360.48	a,c
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)	1,389.00	1,389.00	0.00	
Chapter 8, Article 15, Section 8b(11)	5,029.10	5,035.10	(6.00)	b
Chapter 8, Article 15, Section 8b(12)	0.00	0.00	0.00	
Chapter 8, Article 15, Section 8b(13)	0.00	0.00	0.00	
Chapter 8, Article 15, Section 8b(14)	0.00	0.00	0.00	
Chapter 8, Article 15, Section 8b(15)	<u>1,421.00</u>	<u>0.00</u>	<u>1,421.00</u>	a
Total Disbursements For the Period July 1, 2009 - June 30, 2010	<u>\$42,909.13</u>	<u>\$41,133.65</u>	<u>\$1,775.48</u>	d

a-\$1,799.51 unallowable expenditures - see finding 1

b-\$6.00 unrecord service charge - de minimus - not an exception

c-\$18.03 check recording errors - not an exception

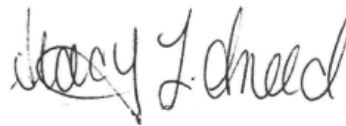
d-\$1,775.48 difference due to \$1,799.51 unallowable less \$18.03 check recording errors less \$6.00 unrecorded service charge

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 28th day of July 2011.



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

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copies forwarded to the Institute Volunteer Fire Department; Prosecuting Attorney, Kanawha County; County Clerk, Kanawha County; Governor; Attorney General; State Auditor; and, State Fire Marshal.