

LEGISLATIVE FINANCIAL COMPLIANCE INSPECTION

REEDY VOLUNTEER FIRE DEPARTMENT

FOR THE PERIOD JANUARY 1, 2010 - DECEMBER 31, 2010

REPORT OVERVIEW

- Lack of Supporting Documentation
- Unallowable Expenditures



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

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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

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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

June 5, 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 Reedy 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 cursive script that reads "Stacy L. Sneed".

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

SLS/rwa

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

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

EXECUTIVE SUMMARY

| Reedy VFD Roane County | <u>December 31, 2010</u> |
|---|---------------------------------|
| | |
| Finding 1 - Lack of Supporting Documentation | \$5,636.49 |
| | |
| Finding 2 - Unallowable Expenditures | \$ 242.91 |
| | |
| Total | <u>\$5,879.40</u> |

RECOMMENDATIONS:

Finding 1:

We recommend the Reedy VFD maintain proper documentation for all expenditures, not write checks to individuals and reimburse their state account \$5,636.49.

Finding 2:

We recommend all revenues allocated to the fire department only be used for expenditures reasonably required for effective and efficient fire protection service, used for the public good, made in accordance with their Corporate Charter and by laws, and authorized by Chapter 8, Article 15, Section 8(b) of the West Virginia Code, as amended. We also recommend they comply with Publication TSD-320 and not pay consumer sales tax. We further recommend the Reedy VFD reimburse their state account \$242.91.

RESPONSES:

The department agreed with all findings and recommendations.

REEDY 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.

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

OFFICERS AND STAFF

George CallowPresident
Mitchell McCumbers.....Treasurer
Robert BauerFire Chief

REEDY 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 Reedy 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 presented to 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 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. Based on our review, the VFD lacked proper supporting documentation for expenditures totaling \$5,636.49; we also noted several checks written to individuals. In addition, we also noted the VFD made \$242.91 in expenditures identified from state funds that were not allowed. Except for the items noted above, we believe there is sufficient evidence to conclude all expenditures were allowable and supported.

EXIT CONFERENCE

We discussed this report with the Chief of the Reedy Volunteer Fire Department on June 5, 2012. All findings and recommendations were reviewed and discussed. The department agreed with all findings and recommendations.

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

FINDINGS

FINDING 1 **LACK OF SUPPORTING DOCUMENTATION:**

The Reedy Volunteer Fire Department lacked proper supporting documentation for expenditures totaling \$5,636.49. We also noted several documented checks to individuals.

CONDITION: 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>LACK OF SUPPORT</u> |
|-------------------------|--------------------------|-------------------------|----------------------|-------------------------------|
| 823 | 11/1/2009 | Wood Works and signs | \$19.00 | invoice/receipt |
| 902 | 12/28/2009 | Lock around clock | \$20.00 | invoice/receipt |
| 903 | 1/5/2010 | Reedy Grocery | \$149.26 | invoice/receipt |
| eft 904 | 1/7/2010 | Walmart | \$59.96 | invoice/receipt |
| 905 | 1/12/2010 | USPS | \$62.30 | invoice/receipt |
| eft 906 | 1/15/2010 | Walmart | \$64.96 | invoice/receipt |
| 908 | 1/14/2010 | USPS | \$5.64 | invoice/receipt |
| eft | 2/17/2010 | Waste Management | \$85.74 | invoice/receipt |
| 911 | 2/7/2010 | Star Weld | \$72.92 | invoice/receipt |
| 912 | 2/7/2010 | Reedy Water Works | \$172.07 | invoice/receipt |
| 915 | 2/7/2010 | At&t | \$0.00 | invoice/receipt/voided check |
| 916 | 2/7/2010 | Richard Carpenter | \$54.85 | invoice/receipt |
| 917 | 2/7/2010 | Donnie Husk | \$75.00 | invoice/receipt |
| 920 | Void | Void | \$0.00 | voided check |
| 921 | 2/7/2010 | Reedy Grocery | \$116.05 | invoice/receipt |
| 922 | Void | Void | \$0.00 | voided check |
| 923 | 2/7/2010 | City Net | \$0.00 | invoice/receipt/voided check |
| 924 | 2/7/2010 | Sissonville Fire School | \$130.00 | invoice/receipt |
| eft 925 | 4/6/2010 | Walmart | \$117.55 | invoice/receipt |
| 926 | 4/10/2010 | Putnam Co. Fire School | \$195.00 | invoice/receipt |
| 927 | 4/3/2010 | Ron Bauer | \$33.75 | invoice/receipt |
| 928 | 4/7/2010 | My-lor | \$64.80 | invoice/receipt |
| 933 | 4/7/2010 | Waste Management | \$20.84 | invoice/receipt |
| 934 | 4/7/2010 | At&t | \$98.84 | invoice/receipt |

| <u>CHECK NO.</u> | <u>CHECK DATE</u> | <u>PAYEE</u> | <u>AMOUNT</u> | <u>LACK OF SUPPORT</u> |
|------------------|-------------------|---------------------------|-----------------|------------------------------|
| 935 | Void | Void | \$0.00 | voided check |
| 936 | 4/7/2010 | Reedy Grocery | \$122.14 | invoice/receipt |
| 937 | 4/12/2010 | Unkown | \$18.30 | invoice/receipt |
| 940 | 5/1/2010 | Waste Management | \$42.84 | invoice/receipt |
| 946 | 5/1/2010 | Reedy grocery | \$154.97 | invoice/receipt |
| 947 | 6/1/2010 | Matt Paxton | \$75.00 | invoice/receipt |
| 949 | 5/17/2010 | Office Depot | \$214.60 | invoice/receipt |
| 953 | 7/1/2010 | City Net | \$42.70 | invoice/receipt |
| 954 | 7/1/2010 | Waste Management | \$21.42 | invoice/receipt |
| 955 | 7/7/2010 | Reedy Grocery | \$232.86 | invoice/receipt |
| 956 | 8/24/2010 | Reedy Grocery | \$152.28 | invoice/receipt |
| 957 | 8/24/2010 | Reid's Auto | \$50.64 | invoice/receipt |
| 958 | 8/14/2010 | Wood County Firefighters | \$300.00 | invoice/receipt |
| 959 | Void | Void | \$0.00 | voided check |
| 964 | 8/24/2010 | WV State Fire Assoc. | \$0.00 | invoice/receipt/voided check |
| 965 | 8/24/2010 | Waste Management | \$21.27 | invoice/receipt |
| 966 | 9/16/2010 | Dave's Marine | \$1,421.57 | invoice/receipt |
| 969 | 10/1/2010 | Taylor's | \$31.25 | invoice/receipt |
| 970 | 10/1/2010 | Lloyd Hoff Holding Comp. | \$53.00 | invoice/receipt |
| 973 | Void | Void | \$0.00 | voided check |
| 975 | 10/1/2010 | Waste Management | \$42.54 | invoice/receipt |
| 976 | 10/1/2010 | Reedy Grocery | \$202.42 | invoice/receipt |
| 977 | 10/1/2010 | Postmaster | \$9.90 | invoice/receipt |
| 978 | Void | Void | \$0.00 | voided check |
| 979 | Void | Void | \$0.00 | voided check |
| 980 | 10/10/2010 | WV Sec. of State's Office | \$125.00 | invoice/receipt |
| 981 | 10/1/2012 | FNB | \$231.92 | invoice/receipt |
| eft | 10/12/2010 | debit | \$5.00 | invoice/receipt |
| 985 | 11/13/2010 | USPS | \$1.22 | invoice/receipt |
| 987 | Void | Void | \$0.00 | voided check |
| 988 | 12/29/2010 | Reedy Grocery | <u>\$445.12</u> | invoice/receipt |
| | | Total | \$5,636.49 | |

Checks 916, 917, 927 and 947 were written to individuals.

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: According to the department after the treasurer was removed from office, he disposed of most of the department’s records.

EFFECT: There is a higher risk of fraud when checks are made payable to individuals and expenditures lack proper supporting documentation. Due to the lack of proper supporting documentation, we were unable to determine if these expenditures were allowable.

RECOMMENDATION: We recommend they maintain proper documentation for all expenditures, not write checks to individuals and reimburse their state account \$5,636.49.

FINDING 2

UNALLOWABLE EXPENDITURES:

The Reedy Volunteer Fire Department made \$242.91 in expenditures identified from state funds that were not allowed by Chapter 8, Article 15, Section 8(b) of the West Virginia Code, as amended.

CONDITION:

We noted the fire department made the following expenditures identified from State funds that were not allowable by Chapter 8, Article 15, Section 8(b) of the West Virginia Code, as amended.

| <u>CHECK NO.</u> | <u>CHECK DATE</u> | <u>INVOICE NO.</u> | <u>INVOICE DATE</u> | <u>PAYEE</u> | <u>AMOUNT</u> | <u>DESCRIPTION</u> |
|------------------|-------------------|--------------------|---------------------|--------------------|-----------------|--------------------|
| eft 982 | 11/08/2010 | na | 11/04/2010 | Walmart | \$157.05 | food |
| eft 983 | 11/15/2010 | na | 11/11/2010 | Walmart | \$66.96 | food |
| 986 | 11/03/2010 | 37540 | na | H & R Block | \$18.00 | sales tax |
| 971 | 10/01/2010 | 79553 | 09/23/2010 | Mcintoshe Hardware | <u>\$0.90</u> | sales tax |
| | | | | Total | \$242.91 | |

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.”

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 consumers sales tax or use tax on those purchases.”

CAUSE:

According to the chief, they were not aware these expenditures were not allowable.

EFFECT:

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

RECOMMENDATION:

We recommend all revenues allocated to the fire department only be used for expenditures reasonably required for effective and efficient fire protection service, used for the public good, made in accordance with their Corporate Charter and by laws, and authorized by Chapter 8, Article 15, Section 8(b) of the West Virginia Code, as amended. We also recommend they comply with Publication TSD-320 and not pay consumer sales tax. We further recommend they reimburse their state account \$242.91.

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

SUPPLEMENTAL INFORMATION
STATEMENTS OF EXPENDITURES YEAR ENDED DECEMBER 31, 2010

| <u>Authorizing W.Va. Code</u> | <u>Audit</u> | <u>VFD</u> | <u>Differences</u> | |
|---|--------------------|--------------------|---------------------|----------|
| Chapter 8, Article 15, Section 8b(1) | \$ 139.90 | \$ 139.90 | \$ 0.00 | |
| Chapter 8, Article 15, Section 8b(2) | 0.00 | 0.00 | 0.00 | |
| Chapter 8, Article 15, Section 8b(3) | 280.00 | 1,055.00 | (775.00) | b |
| Chapter 8, Article 15, Section 8b(4) | 7,478.98 | 9,018.23 | (1,539.25) | b |
| Chapter 8, Article 15, Section 8b(5) | 2,494.31 | 3,759.36 | (1,265.05) | b |
| Chapter 8, Article 15, Section 8b(6) | 25,175.03 | 25,175.03 | 0.00 | |
| Chapter 8, Article 15, Section 8b(7) | 3,154.24 | 3,721.50 | (567.26) | 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) | 0.00 | 0.00 | 0.00 | |
| Chapter 8, Article 15, Section 8b(11) | 1,276.29 | 3,217.19 | (1,940.90) | b |
| Chapter 8, Article 15, Section 8b(12) | 0.00 | 125.00 | (125.00) | b |
| 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>333.06</u> | <u>0.00</u> | <u>333.06</u> | b |
| Total Disbursements For Year Ended December 31, 2010 | \$40,331.81 | \$46,211.21 | (\$5,879.40) | a |

a= \$5,879.40 due to \$5,636.49 lack of support (finding 1), \$242.91 unallowable expenditures (finding 2)

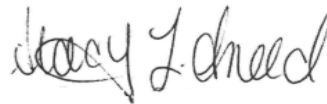
b= net difference due to lack of support, unallowable items, and incorrect coding of line item categories

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 20th day of July 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 Reedy Volunteer Fire Department; Prosecuting Attorney, Roane County; County Clerk, Roane County.