

WEST VIRGINIA LEGISLATURE  
*Legislative Post Audit Division*

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Denny Rhodes  
Director

January 12, 2016

The Honorable William P. Cole, III, President  
West Virginia State Senate  
Post Audits Sub-Committee, Co-Chair  
Room 229M, Building 1  
State Capitol Complex  
Charleston, West Virginia 25306

The Honorable Tim Armstead, Speaker  
West Virginia House of Delegates  
Post Audits Sub-Committee, Co-Chair  
Room 228M, Building 1  
State Capitol Complex  
Charleston, West Virginia 25306

Dear Mr. President and Mr. Speaker:

The Office of the State Fire Marshal (Fire Marshal's Office) deposited approximately \$2.78 million in fee collections during the audit period of July 1, 2013 through December 31, 2014. During the preliminary audit work, significant weaknesses in the Fire Marshal Office's fee collection policies, procedures and recordkeeping were discovered. These weaknesses were of such consequence that we are unable to perform audit procedures that would provide reasonable assurance that fees due to the agency were collected and properly deposited. Such deficiencies over fee collections also substantially increases the risk that revenues could be lost, stolen, or not properly credited to the State Fire Marshal's accounts.

The Fire Marshal's Office has three divisions that collect fees for various activities. The Regulatory and Licensing Division collects licensing fees for electricians, the explosives industry, and fireworks operators; as well as fees for administering electrician and pyro-technician exams. The Inspections and Plans Review Division collects fees for fire safety inspections, reviewing building plans, and processing Freedom of Information Act (FOIA) requests for inspection reports. Lastly, the Investigations Division collects and processes fees related to FOIA requests for fire investigation reports.

According to Generally Accepted Government Auditing Standard, auditors should communicate significant deficiencies in internal controls and operations prior to the issuance of a comprehensive audit report to allow management to promptly address and implement the appropriate procedures to correct the identified deficiencies. The intent of this letter is to communicate these deficiencies to the Legislature and to the State Fire Marshal.

The deficiencies over the Fire Marshal's Office fee collections are as follows:

1. **Lack of Written Procedures over Fee Collections:** The Fire Marshal's Office has no written policies or procedures governing the fee collection process. As a result, there were no procedures to guide employees on best practices designed to mitigate the risk of noncompliance with applicable regulations or detect and prevent the misuse, theft, or abuse of funds.
2. **Inconsistency in Cash Receipt Records:** Based on the Microsoft Access database that is used for the Fire Marshal's Office internal accounting records, there were approximately \$2.6 million of revenues collected by the Fire Marshal during our audit period. This is approximately \$180,000 less than what was deposited according to the deposit data obtained from WVFIMS and wvOASIS. As a result of the discrepancy and the lack of management oversight of the database for collected fees, we determined the database record to be unreliable and, therefore, we were unable to perform audit procedures designed to determine if all fees were properly collected, recorded, and deposited.
3. **Unable to Determine the Timeliness of Deposits:** Three Fire Marshal's Office Divisions collect fees that are subsequently forwarded to the Fire Marshal's Office Administration Division for deposit. We received varying reports through testimony provided by Fire Marshal's Office employees of each of these Divisions regarding the time payments were held prior to deposit. Due to a lack of detailed supporting documentation for collected fees, we were unable to determine whether deposits were made timely as required by W. Va. Code §12-2-2(a).
4. **One Employee Responsible for Recording, Receiving and Depositing Payments:** One employee of the Fire Marshal's Office (Administration Services Assistant) was responsible for receiving payments from the three Divisions that collect fees. The employee also prepared deposits, delivered the deposits to the State Treasurer's Office, and entered the deposit information into WVFIMS/wvOASIS. Also, the individual was the only employee who had access to a safe that contained nearly \$2,000 of undocumented cash. When one individual is responsible for all aspects of receiving, recording and depositing receipts, there is an increased risk for fraud, including theft, to occur and remain undetected.
5. **Undocumented Cash on Hand:** The Fire Marshal's Office had cash totaling approximately \$2,000 (as noted in #4 above) in the safe located in the Administrative Services Assistant's office with no documentation showing the origin of the monies. The State Fire Marshal was unaware of the monies in the employee's office and could offer no explanation as to the original source of the monies. The Administrative Services Assistant stated the Fire Marshal's Office \$200 imprest change fund made up part of the undocumented \$2,000; however, the Fire Marshal's Office did not have the required State Treasurer's Office approval for maintaining an imprest change fund.
6. **Lack of Controls over Fees Collected by Mail:** The Fire Marshal's Office accepted payments in the form of cash, check, and money orders both in person and by U.S. Mail. The Fire Marshal's Office staff reported to us that the majority of payments are received through the mail and that in-person payments rarely occur. There was one individual in each Fire Marshal's Office Division responsible for opening the mail and forwarding payments received by mail to the Administrative Services Assistant. The Divisions did not maintain mail logs to record payments, which increases the risk that fees received by mail may be lost, stolen, or not deposited in the State Fire Marshal's accounts.

7. **Lack of Supervisory Review:** In each Fire Marshal's Office Division, an employee was responsible for entering the money received into a database; however, this database was not reviewed for accuracy or completeness by a supervisor of each respective Division. When collected fees were prepared for deposit, the deposits were not reconciled to each Division's record for collected fees, or to any other record to ensure that all collected fees were included with the deposits. In addition, there was no supervisory review prior to the delivery of deposits to the State Treasurer's Office. Further, the deposits were not reconciled to WVFIMS or wvOASIS after being deposited.
8. **Lack of Physical Safeguards for Collected Fees:** During our audit of cash-on-hand at the Fire Marshal's Office, we observed that a file cabinet where voided receipt forms, receipt form booklets, and deposit records were held was unlocked and the keys were positioned in the lock cylinder. Also, the bank bag used to take the deposits to the Treasurer's Office did not have a lock. We observed monies held at multiple divisions within the Fire Marshal's Office that were not properly safeguarded and were accessible to all employees. We were also unable to locate the folder containing checks received for investigation report fees and as a result, the audit of cash-on-hand could not be performed for the Investigations Division.
9. **Inconsistency of Receipt Form Booklets:** The Fire Marshal's Office has sequentially numbered receipt forms; however, receipts were not issued to customers in sequential order. Therefore, reconciling receipt forms to deposits is not possible since we are unable to account for all receipt forms. Also, receipt forms were not prepared for payments received by U.S. Mail, which was the method the majority of payments were received. Finally, access to the receipt form booklets was not restricted.

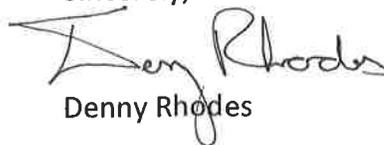
**The Legislative Auditor recommends the following corrective actions be taken:**

1. Comply with WV State Code §12-2-2(a) by keeping an itemized record of all monies collected on a daily basis and deposit receipts within the time frame required by the State Treasurer's Office.
2. Comply with WV State Code §12-2-2(d) and Legislative Rule Title 112, Series 3, Section 3.1 by receiving approval from the State Treasurer's Office for an imprest fund.
3. Comply with WV State Code §5A-8-9(b) by maintaining records that adequately document the Fire Marshal's organization, functions, policies, decisions, procedures and essential transactions.
4. Comply with the West Virginia State Treasurer's Office Cash Receipts Handbook for Spending Units by implementing the following procedures:
  - a. Establish proper separation of duties and checks and balances, which includes cash collecting, recording, depositing and reconciling. Also, the Fire Marshal's Office should require a background check for new employees that handle fee collections as part of their duties.
  - b. Establish a mail handling process that requires the immediate endorsement of checks, the date stamping of payments and accompanying support received by mail, and maintaining a mail log detailing payments received.
  - c. Establish an internal record that documents fee collections.
  - d. Perform reconciliations of fees collected and supported in the agency records to deposit records in wvOASIS.
  - e. The Fire Marshal should consider centralizing the revenue collection process as a means to reduce the number of individuals handling receipts prior to the receipts being deposited. Multiple collection points increase the risk that fee collections may be lost or stolen.

- f. Consider eliminating cash as a form of payment.
- g. The Fire Marshal's Office may want to consider utilizing the State Treasurer's Office's e-Government Services Program as a means of receiving payments. This program provides an electronic payment system for goods and services offered by State agencies. Utilizing this method is more secure and saves the State both time and money.

As previously stated, this letter is not representative of the complete audit of the Fire Marshal's Office. The audit continues and additional updates and reports will be presented to the Subcommittee upon completion.

Sincerely,

A handwritten signature in black ink that reads "Denny Rhodes". The signature is written in a cursive style with a large, stylized initial "D".

Denny Rhodes