

POST AUDIT DIVISION

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Ed Gaunch	Timothy Miley
Roman Prezioso	Eric Nelson Jr.



APRIL 16, 2018
LEGISLATIVE AUDIT REPORT

VOLUNTEER FIRE DEPARTMENTS

Overview of Account Balances

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Denny Rhodes
Director

April 16, 2018

The Honorable Mitch Carmichael, President
West Virginia State Senate
Post Audits Sub-Committee, Co-Chair
Room 229 M, Building 1
State Capitol Complex
Charleston, WV 25305

The Honorable Tim Armstead, Speaker
West Virginia House of Delegates
Post Audits Sub-Committee, Co-Chair
Room 228 M, Building 1
State Capitol Complex
Charleston, WV 25305

Mr. President and Mr. Speaker:

During the January 2018 Post Audits Subcommittee meeting, we presented the annual report of the Volunteer Fire Departments (VFDs) audited by the Post Audit Division in 2017. In this report, we described the mechanism that provides the VFDs funding from the State. Every year, the State of West Virginia distributes millions of dollars to the West Virginia volunteer and part-volunteer fire departments to help provide the departments with firefighting equipment, training, and maintenance. In 2017, over \$20 million was distributed to 428 different departments, distributed equally among qualifying departments through quarterly payments.

During that same meeting of the Post Audits Subcommittee, Senator Gaunch requested information pertaining to the percentage of revenues that the Fire Protection Fund money provides

to the VFDs compared to other sources of funding. Based on this request, our office was able to determine the percentage of revenues derived from other sources versus what the State provides through researching the IRS Form 990 that the majority of the VFDs are required to file each year. The results of this research were provided to the Subcommittee members in a letter dated January 25, 2018. We determined that there are many VFDs that derive significant amounts of funding from other sources, and these VFDs are not as reliant on the State funding to maintain operations as other VFDs which are almost solely dependent on the State. Since several VFDs were identified as receiving a significant amount of funding from other sources, our objective was to determine if any of those same VFDs had a significant unused balance of State funds.

The Post Audit Division began compiling the State account balances of the VFDs as reported to us through their sworn statement of expenses which they are required to submit by February 14 of each year. However, through this process we quickly began to identify errors in the amounts being reported. Several VFDs reported negative balances in their State account, which either means that those accounts were overdrawn, or the information reported to us was inaccurate. We also noted several VFDs reported substantially high balances in their State accounts, giving the appearance that a year or more of State funding went unused. While this was a goal of our research, it was also noted that several of these VFDs reporting high balances were also noted in the past to have mixed outside funds with their State funds, causing us to question the accuracy of this information. Due to these factors, we feel that we have identified a flaw in the process by which the VFDs are reporting their statement of expenditures. It is a given that the main goal of the VFDs is to provide fire protection services to areas that cannot or are not serviced by municipal fire departments, and that having a member of their department who is able to produce accurate financial reports to the Post Audit Division is not a primary function that they are concerned with. In turn, the sworn statement of expenses provided to us is not always accurate due to a lack of fiscal understanding. Based on the high probability that the information being reported to us is inaccurate, we felt it best to address this issue and provide the Subcommittee our recommendation for improving this process to ensure accurate reporting of the VFDs statement of expenditures.

VFDs are required to submit their yearly expenses that were charged to their State accounts and are further required to keep all state funds in a separate bank account with no other funds from

other sources mixed in that account. W.Va. Code §12-4-14(g)(1) gives VFDs two options for reporting this information:

W.Va. Code §12-4-14(g)(1)

(A) File a report, as defined in subdivision (3), subsection (a) of this section with the Legislative Auditor within the same time frames as are required for sworn statements of annual expenditures to be filed under this section. The report shall be made by an independent certified public accountant at the cost of the volunteer or part-volunteer fire department. The scope of the report is limited to showing that the funds distributed were spent for authorized purposes; or

(B) File a sworn statement of annual expenditures with the Legislative Auditor on or before February 14 of each year. The sworn statement of expenditures shall be signed by the chief or director of the volunteer fire department and shall be made under oath and acknowledged before a notary public.

The first option to have a certified public accountant prepare this report is a potentially costly option for a VFD. The second puts the burden of reporting on the staff of the VFDs which, as previously noted, do not always have a financial background that would lend to ensuring that information is accurately reported. However, since this is essentially a reflection of all monies used from their State account in a given year, this information would be directly reflected in each of their monthly bank statements over the course of the year for that account. Based on this fact, we have the following recommendation that would ensure more accurate reporting of this information, or at a minimum would allow us to determine the accuracy without having to conduct a full audit of the VFD.

Recommendation

The Legislative Auditor recommends that the VFDs be required to provide a monthly bank statement for each month for which their statement of expenditures is reflective of, encompassing a full 12-month period from the time of their last report, as well as one subsequent month's statement to capture any expenditures made not reflected in the 12th month's statement.

The Post Audit Division will continue to attempt to gather accurate information concerning the balances of VFDs' State accounts to determine if any have significant balances of unused State funds and report this information to the Subcommittee at a later date. However, based on the issues noted regarding the current accuracy of this information, we feel that the revision to the reporting requirements will help facilitate more accurate information being reported to us in the future, allowing us to make more timely analysis of this information to provide to the Legislature at its request.

Sincerely,



Denny Rhodes