

# LEGISLATIVE FINANCIAL COMPLIANCE INSPECTION

## LOUP CREEK

## VOLUNTEER FIRE DEPARTMENT

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

### REPORT OVERVIEW

- Lack of Supporting Documentation
- Unallowable Expenditures
- No Letter of Representation



WEST VIRGINIA LEGISLATIVE AUDITOR  
POST AUDIT DIVISION



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## LEGISLATIVE POST AUDIT SUBCOMMITTEE

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Mike Hall

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Speaker Richard Thompson, Chairman  
Harry Keith White  
Tim Armstead

### WEST VIRGINIA LEGISLATIVE AUDITOR LEGISLATIVE POST AUDIT DIVISION

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

Stacy L. Sneed, CPA, CICA, Director  
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March 21, 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 Loup Creek 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

**LOUP CREEK VOLUNTEER FIRE DEPARTMENT**  
**January 1, 2010 – December 31, 2010**

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**LOUP CREEK VOLUNTEER FIRE DEPARTMENT**  
**January 1, 2010 – December 31, 2010**

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**EXECUTIVE SUMMARY**

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<b>Loup Creek VFD Fayette County</b>	<b>December 31, 2010</b>
Finding 1 - Lack of Supporting Documentation	\$1,084.04
Finding 2 - Unallowable Expenses	274.76
Finding 3 – No Letter of Representation	<u>0.00</u>
<b>Total</b>	<b><u>\$1,358.80</u></b>
<b>Total Amount for Reimbursement</b>	<b><u>\$1,358.80</u></b>

**RECOMMENDATIONS:**

Finding 1- We recommend the Loup Creek VFD maintain proper documentation for all expenditures, and reimburse their state account \$1,084.04.

Finding 2- We recommend all revenues allocated to the fire department only be used for expenditures made in accordance with Chapter 8, Article 15, Section 8(b) of the West Virginia Code, as amended. We further recommend the Loup Creek VFD reimburse their state account \$274.76.

Finding 3- We recommend the Board of Governors of the Loup Creek VFD to take responsibility for the proper internal control of its accounting records.

**RESPONSES:**

We provided all findings to the department. The department did not respond to our request for a response.

**LOUP CREEK VOLUNTEER FIRE DEPARTMENT**  
**January 1, 2010 – December 31, 2010**

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**INTRODUCTION**

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**POST AUDIT AUTHORITY**

The procedures were conducted pursuant to Chapter 12, Article 4, Section 14 of the West Virginia Code, as amended, 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, as amended, 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.

**LOUP CREEK VOLUNTEER FIRE DEPARTMENT**  
**January 1, 2010 – December 31, 2010**

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**OFFICERS AND STAFF**

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Brad Williams .....President  
Dave Wood.....Treasurer  
Brad Williams .....Fire Chief



**LOUP CREEK VOLUNTEER FIRE DEPARTMENT**  
**January 1, 2010 – December 31, 2010**

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**SCOPE**

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We conducted an evaluation of the revenue and expenditure transactions, and other records of the Loup Creek 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.

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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.

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.

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**CONCLUSION**

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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. We believe there is sufficient evidence to conclude all expenditures were lawful, allowable and supported, except for the following noted items.

The Loup Creek Volunteer Fire Department made \$274.76 in expenditures identified from state funds that were not allowed. The VFD also lacked proper supporting documentation for expenditures totaling \$1,084.04. The department did not provide us with a signed letter of representation. We further noted the department did not respond to our findings or request for an exit conference.

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### **EXIT CONFERENCE**

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The department did not respond to our request for an exit conference. We presented all findings by letter to the department. They did not provide a response to our findings.

**LOUP CREEK VOLUNTEER FIRE DEPARTMENT**  
**January 1, 2010 – December 31, 2010**

**FINDINGS**

**Finding 1:                   Lack of Support**

The Loup Creek Volunteer Fire Department lacked proper supporting documentation for expenditures totaling \$1,084.04.

Condition:                   We noted the fire department could not provide a proper documentation for expenditures for the following expenditures.

<u>CHECK NO.</u>	<u>CHECK DATE</u>	<u>PAYEE</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
1566	1/13/2010	NAPA	\$ 247.93	Invoice
1621	9/21/2010	Beckley Welding Supply, Inc.	74.20	Invoice
1644	11/27/2010	King Cole Chevrolet	633.65	Invoice
1648	12/12/2010	Genuine Parts Charleston, WV	<u>128.26</u>	Invoice
		<b>Totals</b>	<b><u>\$1,084.04</u></b>	

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:                       We provided all findings to the department. The department did not respond to our request for a response.

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

Recommendation:       We recommend the Loup Creek VFD maintain proper documentation for all expenditures, and reimburse their state account \$1,084.04.

**Finding 2: Unallowable Expenses**

The Loup Creek Volunteer Fire Department made \$274.76 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>PAYEE</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
1653	12/16/200	Wood's Quick Mart	\$274.76	Food, personal items, fundraising

Revenues allocated to the fire department may 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.

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: We provided all findings to the department. The department did not respond to our request for a response.

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 the Loup Creek VFD reimburse their state account \$274.76. We further 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.

**FINDING 3:**

**No Letter Of Representation**

The Department did not sign a representation letter that confirmed, to the best of their knowledge and belief, certain representations made during their audit.

Condition:

The Department did not sign a representation letter that confirmed, to the best of their knowledge and belief, certain representations that stated:

1. All disbursements have been made in the name of and for the benefit of the Volunteer Fire Department.
2. We are responsible for the accurate presentation of the Volunteer Fire Department Financial Statements of the Volunteer Fire Department.
3. We have made available to you all financial records and related data regarding the receipts and disbursements of State funds.
4. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices regarding State funds that could have an effect on the Volunteer Fire Department Financial Statements of the Volunteer Fire Department.
5. There are no transactions involving State funds that have not been properly recorded in the accounting records underlying the Volunteer Fire Department Financial Statements of the Volunteer Fire Department.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the Volunteer Fire Department involving
  - a. Management,
  - b. Volunteers who have significant roles in internal control over State funds, or
  - c. Others where the fraud could have an affect on the Volunteer Fire Department Financial Statements of the Volunteer Fire Department.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Volunteer Fire Department received in communications from volunteers, former volunteers, State or local governments, or others.
9. There are no violations or possible violations of laws of the State of West Virginia, including Chapter 8, Article 15, Section 8b of the West Virginia Code, as amended, or any other agreement with the State regarding State funds received for any other purpose, whose effects should be considered for disclosure in your report of the Volunteer Fire Department.

10. Volunteer Fire Department has satisfactory title to all owned assets purchased with State funds.

They did not attest to the best of their knowledge and belief, no events have occurred subsequent to the filing date regarding State funds that would require adjustment to, or disclosure in, the Volunteer Fire Department Financial Statements of the Volunteer Fire Department.

Criterion: *A representation letter is a letter addressed to the auditor that has been drafted by the auditor and given to the department to sign. Written representations are obtained from the department to complement other engagement procedures. However, there is no procedure that can be performed that would eliminate the need for obtaining written representations. Our policies and procedures require us to obtain a written representation letter from each department we audit. Written representations ordinarily confirm representations explicitly or implicitly given to the auditor, indicate and document the continuing appropriateness of such representations, and reduce the possibility of misunderstanding concerning the matters that are the subject of the representations.*

Cause: The department did not respond to our repeated oral and written requests for a signed letter of representation.

Effect: The responsibility for good internal control over the accounting records is the responsibility of the Board of Governors. There is a higher risk of fraud when management does not take responsibility for the internal control of the accounting records and will not represent to the best of their knowledge they are not aware of any fraud.

Recommendation: We recommend the Board of Governors of the Loup Creek VFD take responsibility for the proper internal control of its accounting records.

**LOUP CREEK VOLUNTEER FIRE DEPARTMENT**  
**January 1, 2010 – December 31, 2010**

**SUPPLEMENTAL INFORMATION**  
**STATEMENT OF EXPENDITURES YEAR ENDED DECEMBER 31, 2010**

D	A	B	C	
<u>Authorizing W.Va Code</u>	<u>AUDIT</u>	<u>VFD</u>	<u>DIFFERENCES</u>	
Chapter 8, Article 15, Section 8b(1)	\$1,675.96	\$1,675.96	\$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)	401.45	401.45	0.00	
Chapter 8, Article 15, Section 8b(5)	3,328.85	4,613.45	(1,284.60)	b
Chapter 8, Article 15, Section 8b(6)	0.00	0.00	0.00	
Chapter 8, Article 15, Section 8b(7)	8,090.05	8,090.05	0.00	
Chapter 8, Article 15, Section 8b(8)	0.00	0.00	0.00	
Chapter 8, Article 15, Section 8b(9)	25.00	25.00	0.00	
Chapter 8, Article 15, Section 8b(10)	13,713.77	13,713.77	0.00	
Chapter 8, Article 15, Section 8b(11)	1,415.30	1,415.30	0.00	
Chapter 8, Article 15, Section 8b(12)	0.00	74.20	(74.20)	c
Chapter 8, Article 15, Section 8b(13)	789.00	789.00	0.00	
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>	
<b>Total Disbursements For Year Ended December 31, 2010</b>	<b><u>\$29,439.38</u></b>	<b><u>\$30,798.18</u></b>	<b><u>(\$1,358.80)</u></b>	a

a = \$1,358.80 due to \$1,084.04 lack of support (finding 1) and \$274.76 unallowable expenditures (finding 2)

b = \$1,284.60 difference due to \$1,009.84 lack of support, \$274.76 unallowable expenditures (see findings 1,2)

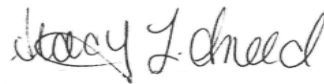
c = \$74.20 difference due to lack of supporting documentation (see finding 1)

**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 11<sup>th</sup> day of May 2012.



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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 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 Loup Creek Volunteer Fire Department; Prosecuting Attorney, Fayette County; County Clerk, Fayette County.