

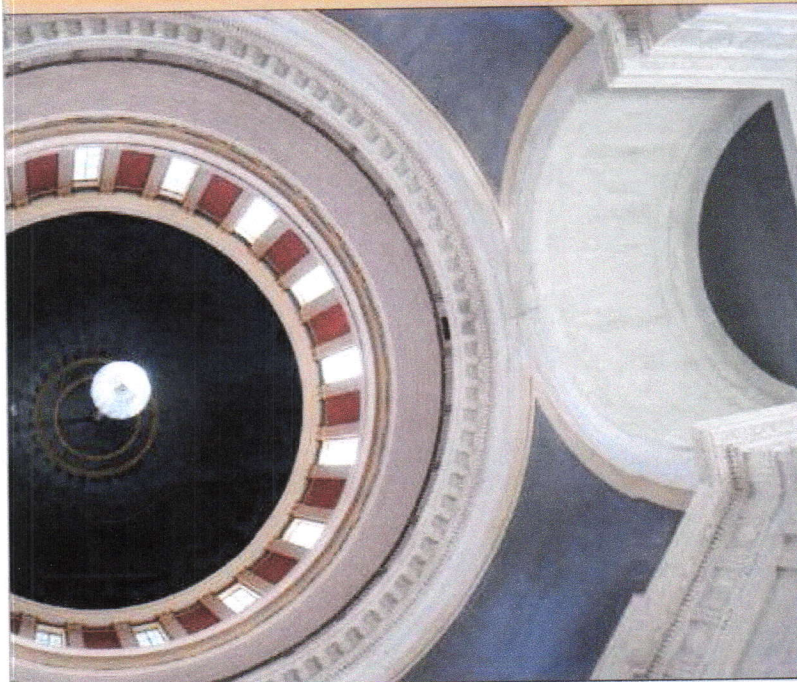
# LEGISLATIVE FINANCIAL COMPLIANCE INSPECTION

## CHESAPEAKE VOLUNTEER FIRE DEPARTMENT

FOR THE YEAR ENDING DECEMBER 31, 2011

### REPORT OVERVIEW

- Commingled
- Lack of Support
- Unallowable



WEST VIRGINIA LEGISLATIVE AUDITOR  
POST AUDIT DIVISION



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### 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  
Legislative Post Audit Division  
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March 22, 2013

The Joint Committee on Government and Finance:

We reported on January 8, 2013, the Chesapeake Volunteer Fire Department did not provide the required documents necessary to complete our examination and the scope of our work was not sufficient to enable us to complete an examination of the department.

The Department subsequently provided the required documents for the year ending December 31, 2011. In compliance with the provisions of the West Virginia Code, Chapter 12, Article 4, Section 14 as amended, we have conducted a review of these documents and issued this follow up report based on the documents provided. 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 blue ink that reads "Stacy L. Sneed".

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

SLS/nmh

**CHESAPEAKE VOLUNTEER FIRE DEPARTMENT**  
**January 1, 2011 – December 31, 2011**

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**CHESAPEAKE VOLUNTEER FIRE DEPARTMENT**  
**January 1, 2011 – December 31, 2011**

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**EXECUTIVE SUMMARY**

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Due to the commingling of funds, we are unable to determine if all expenditures made from state funds were allowable and/or properly documented. However, based on the documentation provided we found:

**FINDING 1 COMMINGLED:**

The Chesapeake Volunteer Fire Department commingled state funds with funds from other sources totaling \$42,311.89.

**Recommendation:**

We recommend the Chesapeake VFD maintain all state funds in a separate account and not commingled with funds received from other sources.

**FINDING 2 LACK OF SUPPORT:**

Based on the documentation provided to us, the Chesapeake Volunteer Fire Department lacked proper supporting documentation for expenditures totaling \$9,435.80.

**Recommendation:**

We recommend the department maintain proper documentation for all expenditures made from state funds and reimburse their state account \$9,435.80 for expenditures that lacked support. The department should engage an independent CPA to provide an audit of the department's finances. We further recommend the department establish an audit committee to review department records for proper endorsement, documentation and accuracy.

**FINDING 3 UNALLOWABLE:**

Based on the documentation provided, the Chesapeake Volunteer Fire Department made \$599.44 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.

**Recommendation:**

We recommend all revenues allocated to the fire department only be used for expenditures reasonably required for effective and efficient fire protection service, as authorized by Chapter 8-15-8(b) of the West Virginia Code, as amended. The department should obtain sufficient knowledge of Chapter 8-15-8(b) of the West Virginia Code to determine allowable expenditures under the code. We further recommend the Chesapeake VFD reimburse their state account \$599.44.

**Response:**

It is the intention of the Chesapeake Volunteer Fire Department Inc. to comply fully with both the intent and letter of the law regarding the use of State Funds. Per the three Findings we intend to respond by taking the following actions:

Finding One. CVFD will continue to maintain its State Fund Savings account, but make expenditures directly from said account instead of transferring it to a checking account for easier disbursement.

Finding Two. CVFD will provide full support for the noted expenditures, hopefully before the April 3. We have already found most of them. Many of these items were direct debits of the account for CVFD utility bills.

Finding Three. The car wash will reimburse the state account for the mistakenly paid water bill. Additionally CVFD will apply to the West Virginia State Tax Department for a refund of the \$31.75 it mistakenly paid on a bill from Grainger.

**CHESAPEAKE VOLUNTEER FIRE DEPARTMENT**  
**January 1, 2011 – December 31, 2011**

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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, 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.



**CHESAPEAKE VOLUNTEER FIRE DEPARTMENT**  
**January 1, 2011 – December 31, 2011**

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**OFFICERS AND STAFF**

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Steven A. Johnson .....President  
Brandon Holley..... Treasurer  
Steven P. Johnson. ....Fire Chief

**CHESAPEAKE VOLUNTEER FIRE DEPARTMENT**  
**January 1, 2011 – December 31, 2011**

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**SCOPE**

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We conducted an evaluation of the revenue and expenditure transactions, and other records of the Chesapeake Volunteer Fire Department's state accounts for the year ending December 31, 2011. 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 Audits Subcommittee, the members of the WV Legislature, and the Volunteer Fire Department. However, once presented to the Post Audits Subcommittee, this report is a matter of public record and its distribution is not limited.

Our reports are designed to assist the Post Audits 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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**CONCLUSIONS**

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Based on our review, we determined the department commingled state funds with funds from other sources totaling \$42,311.89. Due to the commingling of funds, we are unable to determine if all expenditures made from state funds were allowable and/or properly documented. However, based on the documentation provided, we determined the department lacked proper supporting documentation for expenditures totaling \$9,435.80 and unallowable items totaling \$599.44. We further recommend the department not commingle state funds, maintain proper documentation for all expenditures and reimburse their state account \$10,035.24 for items that lacked support or were unallowable.

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### EXIT CONFERENCE

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We discussed this report with the Chief of the Chesapeake Volunteer Fire Department on 4/1/2013. All findings and recommendations were reviewed and discussed. The department agreed with all findings and recommendations.

**CHESAPEAKE VOLUNTEER FIRE DEPARTMENT**  
**January 1, 2011 – December 31, 2011**

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**FINDINGS**

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**FINDING 1 COMMINGLED:**

The Chesapeake Volunteer Fire Department commingled State funds with funds from other sources totaling \$42,311.89.

**CONDITION:**

We noted the Fire Department made the following fund transfers identified from state funds to their non state account:

CHECK NO.	CHECK DATE	PAYEE	Amount
eft	1/4/2011	Transfer to General Account	\$6,000.00
eft	1/11/2011	Transfer to General Account	2,000.00
eft	2/4/2011	Transfer to General Account	2,000.00
eft	5/12/2011	Transfer to General Account	5,000.00
eft	7/7/2011	Transfer to General Account	1,000.00
eft	7/13/2011	Transfer to General Account	5,511.89
eft	7/27/2011	Transfer to General Account	5,000.00
eft	8/3/2011	Transfer to General Account	500.00
eft	8/4/2011	Transfer to General Account	4,500.00
eft	8/23/2011	Transfer to General Account	1,000.00
eft	9/19/2011	Transfer to General Account	300.00
eft	10/28/2011	Transfer to General Account	4,000.00
eft	12/15/2011	Transfer to General Account	2,000.00
eft	12/21/2011	Transfer to General Account	<u>3,500.00</u>
		Total	\$42,311.89

**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."** Emphasis added

**CAUSE:**

The department did not follow Chapter 8, Article 15, Section 8(b) of the West Virginia Code, as amended, and commingled funds from other sources with funds received pursuant to sections fourteen-d and thirty-three, article three, and section seven, article twelve-c, all of chapter thirty-three of this code.

**EFFECT:**

Due to the commingling of funds, we are unable to determine if all expenditures made from state funds were allowable and/or properly documented.

**RECOMMENDATION:**

We recommend the Chesapeake VFD maintain all state funds in a separate account and not commingled with funds received from other sources.

**FINDING 2 LACK OF SUPPORT:**

Based on the documentation provided to us, the Chesapeake Volunteer Fire Department lacked proper supporting documentation for expenditures totaling \$9,435.80.

**CONDITION:**

We identified transfers totaling \$42,311.89 from the state account to the general account. The department could not provide a ledger of expenditures to support these transfers. We scheduled expenditures identified by the department as allowable state expenditures totaling \$52,975.55. Based on the documentation provided for scheduled expenditures, we noted expenditures totaling \$32,276.65 that was allowable and properly documented. Based on the transfers totaling \$42,311.89 less scheduled allowable expenditures we noted expenditures totaling \$9,435.80 that were not properly documented.

**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.”

**CAUSE:**

The Board of Governors did not properly oversee the department’s records to provide and maintain proper documentation for expenditures made from state funds.

**EFFECT:**

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

**RECOMMENDATION:**

We recommend the department maintain proper documentation for all expenditures made from state funds and reimburse their state account \$9,435.80 for expenditures that lacked support. The department should engage an independent CPA to provide an audit of the department's finances. We further recommend the department establish an audit committee to review department records for proper endorsement, documentation and accuracy.

**FINDING 3 UNALLOWABLE:**

Based on the documentation provided, the Chesapeake Volunteer Fire Department made \$599.44 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:**

Based on supporting documentation provided to us, we determined the following items were purchased with State money that were not allowable under the West Virginia Code:

<u>CHECK NO.</u>	<u>CHECK DATE</u>	<u>PAYEE</u>	<u>N/A</u>	<u>DESCRIPTION</u>
15212	5/12/2011	Grainger's	\$31.75	sales tax
debit card	12/20/2011	American Water	<u>567.69</u>	water bill for car wash
		AUDIT	\$599.44	

**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:**

The department did not have sufficient knowledge of Chapter 8-15-8(b) of the West Virginia Code to determine allowable expenditures under the code.

**EFFECT:**

There is a higher risk of fraud, abuse or error when the Board of Governors does not properly review or oversee the department’s records. Due to unallowable expenditures, the department 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, as authorized by Chapter 8-15-8(b) of the West Virginia Code, as amended. The department should obtain sufficient knowledge of Chapter 8-15-8(b) of the West Virginia Code to determine allowable expenditures under the code. We further recommend the Chesapeake VFD reimburse their state account \$599.44.

**CHESAPEAKE VOLUNTEER FIRE DEPARTMENT**  
**January 1, 2011 – December 31, 2011**

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**SUPPLEMENTAL INFORMATION**  
**STATEMENT OF EXPENDITURES YEAR ENDED DECEMBER 31, 2011**

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<u>Authorizing W.Va Code</u>	AUDIT	VFD	DIFFERENCES	
Chapter 8, Article 15, Section 8b(1)	\$0.00	\$1,248.00	-\$1,248.00	<b>b</b>
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	1,575.00	-1,575.00	<b>b</b>
Chapter 8, Article 15, Section 8b(5)	0.00	10,840.93	-10,840.93	<b>b</b>
Chapter 8, Article 15, Section 8b(6)	0.00	0.00	0.00	
Chapter 8, Article 15, Section 8b(7)	0.00	15,179.08	-15,179.08	<b>b</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)	13,290.00	20,090.61	-6,800.61	<b>b</b>
Chapter 8, Article 15, Section 8b(11)	40.00	6,708.21	-6,668.21	<b>b</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>0.00</u>	<u>0.00</u>	<u>0.00</u>	
Total Disbursements For Year Ended December 31, 2011	\$13,330.00	\$55,641.83	-\$42,311.83	<b>a</b>

a = Commingled \$42,311.89 less recording error \$0.06

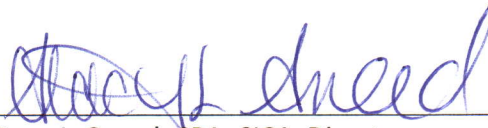
b = We were unable to determine the line item differences because the department could not provide a ledger to support their line item totals from their financial statement.

**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 8th day of April 2013.



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 Chesapeake Volunteer Fire Department; Prosecuting Attorney, Kanawha County; County Clerk, Kanawha County.