

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



HAMILTON DISTRICT VOLUNTEER FIRE-EMS DEPARTMENT, INC.

HAMILTON, NORTH CAROLINA

INVESTIGATIVE AUDIT REPORT
MARCH 2023



NCOSA
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

PURPOSE

The North Carolina Office of the State Auditor initiated an investigative audit in response to three allegations received regarding Hamilton District Volunteer Fire-EMS Department, Inc. (Hamilton Fire-EMS). The substantiated allegation was that compensation that was paid to individuals for services performed was not taxed appropriately.

BACKGROUND

Hamilton Fire-EMS is a non-profit organization that was formed on September 22, 1989, located in Martin County, North Carolina.

According to the Articles of Incorporation, the Hamilton Fire EMS was organized to:

Provide fire protection, rescue, and emergency medical services in the Hamilton Fire Protection District of Martin County, North Carolina, and other areas as allowed and required by law.

Although Hamilton Fire-EMS is a volunteer organization, there are two paid full-time positions. If the full-time employees are out, volunteers may fill in and be paid a rate of \$100 per day. Additionally, volunteers that respond to emergency calls are paid from \$15-\$25 per call.

Hamilton Fire-EMS receives funding from various sources, including donations, Martin County,¹ and payments from Medicare and health insurance providers for renderings services to insured patients.

KEY FINDING

Hamilton Fire-EMS violated federal tax laws by not reporting \$52,670 in compensation paid to individuals for services performed from 2017 to 2021. The compensation should have been reported to the individuals who earned the money as well as the Internal Revenue Service (IRS). The compensation should have been reported on a Form 1099.²

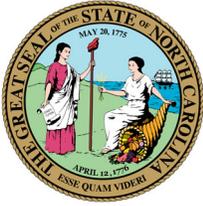
KEY RECOMMENDATIONS

- Hamilton Fire-EMS should provide individuals with the appropriate annual Form 1099 for years 2017-2021 for services performed.
- Hamilton Fire-EMS should submit all unfiled forms to the IRS for years 2017-2021.
- Hamilton Fire-EMS Board should implement procedures to ensure Form 1099s are issued annually to individuals who provide services and receive greater than \$600 in a calendar year.

¹ Martin County collects a Fire Tax that is allocated to the Hamilton Fire-EMS. Additionally, Martin County allocates a part of their general fund to Hamilton Fire-EMS for emergency medical services.

² Form 1099-NEC, Nonemployee Compensation, was the annual form for 2020 and 2021. Form 1099-MISC, Miscellaneous Income, was the annual form for 2017-2019.

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699
Telephone: (919) 807-7500
Fax: (919) 807-7647
www.auditor.nc.gov

AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Brent Jackson, Chair, Board of Directors
Hamilton District Volunteer Fire-EMS Department, Inc.

Ladies and Gentlemen:

Pursuant to North Carolina General Statutes § 147-64.6(c)(16) and 147-64.6B, we have completed an investigative audit of allegations concerning the Hamilton District Volunteer Fire-EMS Department, Inc. The results of our investigative audit, along with recommendations for corrective action, are contained in this report.

Copies of this report have been provided to the Governor, the Attorney General, and other appropriate officials in accordance with N.C.G.S. § 147-64.6(c)(12). We appreciate the cooperation received from the management and employees of the Hamilton District Volunteer Fire-EMS Department, Inc. during our investigative audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Beth A. Wood".

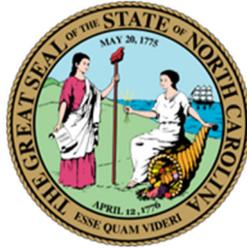
Beth A. Wood, CPA
State Auditor



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State Auditor

TABLE OF CONTENTS

	PAGE
BACKGROUND	1
FINDING AND RECOMMENDATIONS	
BOARD FAILED TO REPORT COMPENSATION TOTALING \$52,670	2
RESPONSE FROM THE HAMILTON DISTRICT VOLUNTEER FIRE-EMS DEPARTMENT, INC.	4
ORDERING INFORMATION.....	6



BACKGROUND

The North Carolina Office of the State Auditor initiated an investigative audit in response to three allegations received regarding Hamilton District Volunteer Fire-EMS Department, Inc (Hamilton Fire-EMS). The substantiated allegation was that compensation that was paid to individuals for services performed was not taxed appropriately.

Our investigative audit procedures included the following:

- Review of Fire-EMS articles of incorporation and bylaws.
- Examination and analysis of available documentation related to compensation paid to individuals for services performed.
- Interviews with personnel and Board members from Hamilton Fire-EMS.

This report presents the results of the investigative audit. The investigative audit was conducted pursuant to North Carolina General Statutes § 147-64.6(c)(16) and §147-64.6B. This report does not constitute an audit or attestation engagement conducted in accordance with generally accepted government auditing standards.

Hamilton Fire-EMS is a non-profit organization that was formed on September 22, 1989, located in Martin County, North Carolina.

According to the Articles of Incorporation, the Hamilton Fire EMS was organized to:

Provide fire protection, rescue, and emergency medical services in the Hamilton Fire Protection District of Martin County, North Carolina, and other areas as allowed and required by law.

A Board of Directors (Board) manages the business and affairs of Hamilton Fire-EMS. According to the Hamilton Fire-EMS bylaws, the Board consists of six members and meets once per year around the first of July.

Although Hamilton Fire-EMS is a volunteer fire department, there are two paid full-time positions. If the full-time employees are out, volunteers may fill in and be paid a rate of \$100 per day. Additionally, volunteers that respond to emergency calls are paid from \$15-\$25 per call.

Hamilton Fire-EMS receives funding from various sources, including donations, Martin County,³ and payments from Medicare and health insurance providers for rendering services to insured patients.

For the year ended June 30, 2021, Hamilton Fire-EMS reported revenue of \$178,711. Martin County provided \$151,989, or 85%, of the revenues to Hamilton Fire-EMS.

³ Martin County collects a Fire Tax that is allocated to the Hamilton Fire-EMS. Additionally, Martin County allocates a part of their general fund to Hamilton Fire-EMS for emergency medical services.



FINDINGS AND RECOMMENDATIONS

BOARD FAILED TO REPORT COMPENSATION TOTALING \$52,670

Hamilton District Volunteer Fire-EMS Department, Inc. (Hamilton Fire-EMS) violated federal tax laws by not reporting \$52,670 of compensation paid to individuals for services performed from 2017 to 2021. The compensation should have been reported to the individuals who earned the money as well as the Internal Revenue Service (IRS). The compensation should have been reported on a Form 1099.⁴

As a result, the Hamilton Fire-EMS may be assessed penalties and fees for not properly reporting the compensation.

Although aware of the IRS requirements, Hamilton Fire-EMS Board of Directors (Board) disregarded the requirements for reporting compensation paid to individuals.

Federal tax law⁵ requires employers to report to each payee who was paid \$600 or more during the year on a Form 1099. Additionally, employers are required to report the compensation to the IRS.

Compensation Totaling \$52,670 Not Reported

For at least five years, Hamilton Fire-EMS did not report compensation paid to individuals for services performed, in violation of federal tax law.

Investigators examined all compensation paid to individuals from 2017 to 2021. During these five years, Hamilton Fire-EMS paid \$52,670 to seven individuals for services they performed. The services included firefighting and emergency medical response.

These compensation payments should have been reported to the individuals on Form 1099.

Hamilton Fire-EMS did not provide the annual Form 1099 to these seven individuals for the compensation they received for their services, nor did they report the compensation to the IRS.

Resulted in Potential Penalties and Fees

Failure to file required tax forms can lead to penalties and fees for Hamilton Fire-EMS.

The penalties and fees could include \$250 per return, not to exceed \$1 million in a calendar year.⁶

Instances involving an intentional disregard can result in harsher penalties being assessed.⁷

Caused by Disregard for IRS Requirements

Hamilton Fire-EMS Board of Directors (Board) disregarded the federal tax law for reporting compensation paid to individuals annually.

⁴ Form 1099-NEC, Nonemployee Compensation, was the annual form for 2020 and 2021. Form 1099-MISC, Miscellaneous Income, was the annual form for 2017-2019.

⁵ 26 U.S. Code § 6041

⁶ 26 U.S.C. §§ 6721(d) and 6722(d).

⁷ 26 U.S.C. §§ 6721(e) and 6722(e).

According to the accountant hired by the Hamilton-Fire EMS Board of Directors, he informed the Board that Form 1099s were required to be issued to individuals who received compensation of more than \$600 in a calendar year. However, according to the accountant, the Board instructed him not to file the required tax forms.

According to the Board President, Board members were aware of the federal tax requirements but disagreed on whether to instruct the accountant to issue the annual Form 1099 to the individuals receiving the compensation.

The Board President stated that he could not take any action without authorization from the entire Board and that the Board never authorized him to issue the required forms.⁸

Federal Tax Law Required Compensation to be Reported

Federal tax law⁹ required Hamilton Fire-EMS to issue Form 1099s to report compensation greater than \$600 paid to an individual in a calendar year. The forms were required to be issued by January 31 of the subsequent year.

Additionally, the federal tax law required Hamilton Fire-EMS to submit Copy A of all Forms 1099-NEC and Form 1096 Annual Summary and Transmittal of U.S. Information Returns to the IRS.

Recommendations

Hamilton Fire-EMS should provide individuals with the appropriate annual Form 1099 for years 2017-2021 for services performed.

Hamilton Fire-EMS should submit all unfiled forms to the IRS for years 2017-2021.

Hamilton Fire-EMS Board should implement procedures to ensure Form 1099s are issued annually to individuals who provide services and are paid greater than \$600 in a calendar year.

⁸ There was no mention of issuing the required Form 1099s in any board minutes from June 2017 through June 2022.

⁹ 26 U.S. Code § 6041



**RESPONSE FROM THE
HAMILTON DISTRICT
VOLUNTEER FIRE-EMS
DEPARTMENT, INC.**

Hamilton District Volunteer Fire-EMS Department, Inc.
P.O. Box 249
Hamilton, NC 27840

March 16, 2023

The Honorable Beth Wood, CPA
State of North Carolina
Office of the State Auditor
20601 Mail Service Center
Raleigh, NC 27699-0600

Reference: Response to Draft of Investigative Report presented March 3, 2023

This letter is in response to the draft of an investigative report and cover letter, which were presented to Board of Directors of the Hamilton District Volunteer Fire-EMS Department, Inc. on March 3, 2023

This investigation reviewed the fiscal years 6/30/2017 to 6/30/2021. During this period, Hamilton District Volunteer Fire-EMS Department, Inc. provided both Fire and EMS services to the Hamilton Fire Protection District. On 6/20/2022 a new entity was formed, Hamilton Volunteer Emergency Medical Services, Inc., to provide EMS services. Therefore, Hamilton District Volunteer Fire-EMS Department, Inc. no longer provided EMS services, but only provided Fire protection and rescue services.

Brent Jackson, as President of the Board of Directors for Hamilton District Volunteer Fire-EMS Department, Inc., contacted the office of the State Auditor regarding the possible lack of accountability for public funds as received by HDV Fire-EMS Dept Inc. This Report is the result of that investigation.

Key Recommendations:

- 1) Hamilton Fire-EMS should provide individuals with the appropriate annual Form 1099 for years 2017-2021 for services performed.

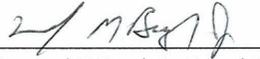
Corrective Action: Board of Directors has instructed Accountant to issue appropriate 1099 Forms for the 2017-2021 period. Accountant has requested social security numbers for the individuals involved from Hamilton Volunteer Emergency Medical Services, Inc.

Date to be accomplished: Completion time is contingent upon receipt of the social security numbers.

2) Hamilton Fire-EMS should submit all unfiled forms to the IRS for years 2017-2021.
Corrective Action: Board of Directors has instructed Accountant to submit all unfiled forms.
Date to be accomplished: Completion time is contingent upon receipt of the social security numbers.

3) Hamilton Fire-EMS Board should implement procedures to ensure Form 1099s are issued annually to individuals who provide services and receive greater than \$600 in a calendar year.
Corrective Action: Board of Directors has instructed Accountant to issue Form 1099 Annually.
Date to be accomplished: Immediate

Hamilton District Volunteer Fire-EMS Department, Inc. Board of Directors appreciates the efforts of the Office of the State Auditor.

 Brent Jackson, President	<u>3-16-23</u> Date	 Linwood G Boyd, Jr. Board Member	<u>3-16-23</u> Date
 Keith Ayers, Board Member	<u>3-16-23</u> Date	 Mark Whitaker, Board Member	<u>3-16-23</u> Date

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: <http://www.auditor.nc.gov>



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919-807-7666



This investigation required 250 hours at an approximate cost of \$30,000.