



**CHINCHILLA VOLUNTEER FIREMEN'S RELIEF
ASSOCIATION OF SOUTH ABINGTON TOWNSHIP**

LACKAWANNA COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010 TO DECEMBER 31, 2012

RELEASED MARCH 2014

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DePASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Keith E. Wellard, President
CHINCHILLA VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lackawanna County

We have conducted a compliance audit of the Chinchilla Volunteer Firefighters' Relief Association pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2010 to December 31, 2012.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was to determine if the volunteer firefighters' relief association received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Chinchilla Volunteer Firefighters' Relief Association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws and administrative procedures including the safeguarding of assets. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with those requirements and that we considered to be significant within the context of the audit objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Chinchilla Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Chinchilla Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2012, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objective. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objective.

The results of our audit, for the period January 1, 2010 to December 31, 2012, found the Chinchilla Volunteer Firefighters' Relief Association, in all significant respects, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed later in this report. The results of our tests also indicated the Chinchilla Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of \$75,383 and an investment balance with a fair value of \$293,437.

Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Duplicate Payment

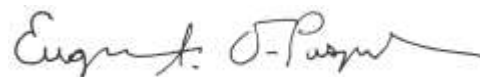
Finding No. 3 – Insufficient Surety (Fidelity) Bond Coverage

Finding No. 4 – Failure to Maintain a Complete and Accurate Equipment Roster

Furthermore, a scope limitation on our audit exists, as detailed in the Observation section of this report.

The contents of this report were discussed with the management of the Chinchilla Volunteer Firefighters' Relief Association.

September 6, 2013



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

Background	1
Findings and Recommendations:	
Finding No. 1 – Undocumented Expenditures.....	3
Finding No. 2 – Duplicate Payment.....	5
Finding No. 3 – Insufficient Surety (Fidelity) Bond Coverage	6
Finding No. 4 – Failure to Maintain a Complete and Accurate Equipment Roster.....	7
Observation:	
Observation – Scope Limitation	8
Accompanying Expenditure Information	9
Report Distribution List	10

BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 53 P.S. § 895.701 *et seq.* (commonly referred to as Act 205), are properly expended.

The Chinchilla Volunteer Firemen's Relief Association of South Abington Township, herein referred to as Chinchilla Volunteer Firefighters' Relief Association, is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 118 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, it is the responsibility of the volunteer firefighters' relief association to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations, which is or are recognized as providing the service to the municipality. The Chinchilla Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
South Abington Township	Lackawanna	\$66,800	\$107,390	\$60,557

BACKGROUND (Continued)

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Chinchilla Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

Chinchilla Hose Company of South Abington Township

CHINCHILLA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
03/25/11	Debit Card	Equipment	\$ 307
04/24/11	Debit Card	Equipment	207
09/07/11	Debit Card	Equipment	306
08/12/12	Debit Card	Equipment	33
05/04/12	1456	Equipment	269
Total			<u>\$ 1,122</u>

In addition, on May 11, 2008, the relief association was unable to provide adequate supporting documentation for check number 1198 for training in the amount of \$319. This amount was reimbursed by the fire company on June 25, 2010, but the check was inadvertently returned to the fire company by the relief association.

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), [FN1] known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Without adequate supporting documentation, such as invoices and detailed minutes of meetings evidencing proper approval of expenditures, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, prudent business practice dictates that supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure adequate supporting documentation is maintained for all expenditures.

CHINCHILLA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 1 – Undocumented Expenditures (Continued)

Effect: Lack of supporting documentation, such as invoices and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as invoices, to evidence the validity of the expenditures or that the relief association be reimbursed \$1,441 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all future expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

CHINCHILLA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Duplicate Payment

Condition: On May 12, 2012, the relief association expended \$2,055 for foam. On August 10, 2012, the relief association erroneously made a duplicate payment for the same invoice. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment.

Criteria: Adequate accounting and internal control procedures should be implemented to prevent duplicate payment of invoices.

Cause: The volunteer firefighters' relief association failed to establish internal control procedures which would require that all invoices or other billing documents be canceled or otherwise effectively marked to prevent duplicate payments.

Effect: As a result of this erroneous payment, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

Recommendation: We recommend the relief association be reimbursed \$2,055 for the erroneous duplicate payment. The relief association should consider contacting the vendor to recover the duplicate payment. In addition, the relief association should establish accounting and internal control procedures to monitor future relief association expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

CHINCHILLA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – Insufficient Surety (Fidelity) Bond Coverage

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer as required by Act 118. Specifically, the Surety (Fidelity) bond policy in effect during and subsequent to the audit period was issued jointly in the name of the fire company and the relief association.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(4) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Since the relief association and affiliated fire company are separate and distinct legal entities, the relief association should maintain a Surety (Fidelity) bond solely in the name of the relief association to ensure that there is adequate protection of relief association assets.

Cause: Relief association officials were unaware of the Act 118 provisions regarding the maintenance of officer's Surety (Fidelity) bond coverage.

Effect: As a result of the authorized disbursing officer of the relief association not being appropriately bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend that the relief association ensure that the authorized disbursing officer is appropriately covered by a Surety (Fidelity) bond as required by Act 118. This requirement may be accomplished by obtaining a Surety (Fidelity) bond solely in the relief association's name. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

CHINCHILLA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 4 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all of the relief association's equipment.

Criteria: Prudent business practice dictates the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's owned equipment. A cumulative equipment roster of all relief association equipment should include the following:

- Types of equipment purchased;
- Dates of purchase;
- Unit costs;
- Names of suppliers;
- Serial numbers, if applicable;
- Current locations of items;
- Final dispositions of sold or damaged equipment; and
- Evidence of the performance and results of an annual physical inventory.

Cause: Relief association officials failed to establish adequate internal control procedures over equipment requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We recommend the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

CHINCHILLA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION OBSERVATION

Observation – Scope Limitation

The Chinchilla Volunteer Firefighters' Relief Association (VFRA) does not maintain canceled or imaged checks. Without copies of canceled or imaged checks, we could not determine whether two VFRA officers authorized and signed the checks. While the VFRA provided bank statements, the VFRA failed to provide copies of canceled or imaged checks.

Act 118 at 35 Pa.C.S. § 7415(c)(3) states, in part, that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

Act 118 at 35 Pa.C.S. § 7418(a) states, in part, that the Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association . . . as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Generally Accepted Government Auditing Standards (GAGAS) Section No. 6.56 states, "Auditors must obtain sufficient appropriate evidence to provide a reasonable basis for their findings and conclusions." GAGAS Section No. 6.61(f) states, "Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence from management of the audited entity or others who have a direct interest in the audited entity."

Our inability to review canceled checks or imaged checks constitutes a scope limitation on our audit.

CHINCHILLA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2010 TO DECEMBER 31, 2012

Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds.

Furthermore, all expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 65,507
Total Benefit Services	<u>\$ 65,507</u>
Fire Services:	
Equipment purchased	\$ 79,632
Equipment maintenance	11,628
Training expenses	6,831
Fire prevention materials	2,463
Total Fire Services	<u>\$ 100,554</u>
Administrative Services:	
Other administrative expenses	\$ 282
Total Administrative Services	<u>\$ 282</u>
Total Investments Purchased:	<u>\$ 55,000</u>
Other Expenditures:	
Undocumented Expenditures	\$ 1,122
Total Other Expenditures	<u>\$ 1,122</u>

CHINCHILLA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Chinchilla Volunteer Firefighters' Relief Association Governing Body:

Mr. Keith E. Wellard, President

Mr. Thaddeus M. Zielinski, Vice President

Ms. Kathleen S. Zielinski, Secretary

Mr. James G. Reese, Jr., Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association.

Ms. Christine Griswold, Secretary
South Abington Township

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.