



**ADAMS AREA FIREMEN'S RELIEF
ASSOCIATION**

BUTLER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2011 TO DECEMBER 31, 2012

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
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Jeffery A. Liberatore, President
ADAMS AREA VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Butler County

We have conducted a compliance audit of the Adams Area 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, 2011 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 objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the findings contained in our prior audit report; and
2. 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 objectives identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Adams Area 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 objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Adams Area Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Adams Area 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 objectives. 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 objectives.

The results of our audit, for the period January 1, 2011 to December 31, 2012, found the Adams Area Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the two findings contained in our prior audit report, as detailed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Adams Area 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.

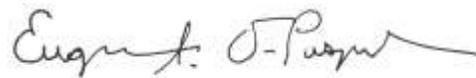
- Finding No. 1 – Noncompliance with Prior Audit Finding and Recommendation – Undocumented Expenditures
- Finding No. 2 – Noncompliance with Prior Audit Finding and Recommendation – Failure to Maintain a Complete and a Accurate Equipment Roster
- Finding No. 3 – Unauthorized Expenditures
- Finding No. 4 – Failure to Maintain a Complete and Accurate Membership Roster

The results of our tests also indicated the Adams Area Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of \$218,113 and an investment balance with a fair value of \$180,451.

However, scope limitations on our audit exist, as detailed in the Observations section of this report.

The contents of this report were discussed with the management of the Adams Area Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

March 11, 2014



EUGENE A. DEPASQUALE
Auditor General

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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 Adams Area Firemen's Relief Association, herein referred to as the Adams Area 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.

BACKGROUND – (Continued)

The Adams Area Volunteer Firefighters’ Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2011</u>	<u>2012</u>
Adams Township	Butler	\$114,383	\$66,408
Mars Borough	Butler	\$ 14,875	\$ 8,415
Seven Fields Borough	Butler	\$ 36,659	\$21,756
Valencia Borough	Butler	\$ 5,278	\$ 3,050

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

Adams Area Fire District

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Adams Area Volunteer Firefighters' Relief Association has not complied with the two prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation – Undocumented Expenditures

Although the relief association provided documentation to support \$450 of undocumented expenditures made in the prior audit period and received reimbursement from the affiliated fire company for an additional \$352 worth of undocumented expenditures, the relief association again failed to provide documentation for expenditures amounting to \$1,057 made in the prior audit period as disclosed in Finding No. 1 contained in this report.

- Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster

Although a roster of relief association owned equipment was provided during the current audit period, this roster did not include a majority of equipment purchases made in the prior audit period as disclosed in Finding No. 2 contained in this report.

We are concerned with the volunteer firefighters' relief association's failure to correct the previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation - Undocumented Expenditures

Condition: As cited in the Status of Prior Audit Findings section of this report, although the relief association provided documentation to support \$450 of undocumented expenditures made in the prior audit period and received reimbursement from the affiliated fire company for an additional \$352 worth of undocumented expenditures, the relief association again failed to provide adequate supporting documentation for the following expenditures made in the prior audit period:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
03/26/2009	5100	Equipment Vendor	\$ 300
09/29/2009	5140	Training Vendor	100
03/10/2010	5175	Training Vendor	360
07/19/2010	5197	Training Vendor	60
02/15/2010	5167	Equipment Vendor	237
Total undocumented prior audit			<u>\$ 1,057</u>

In addition, a similar condition occurred during the current audit period. The relief association was unable to provide adequate supporting documentation for the following expenditure made during the current audit period:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
01/13/2011	5229	Equipment Training vendor	\$ 417
05/16/2011	5258	Training Vendor	659
08/15/2011	5175	Training Vendor	86
02/14/2012	5304	Training Vendor	200
03/15/2012	5312	Training Vendor	53
05/15/2012	5333	Training Vendor	86
07/25/2012	5344	Training Vendor	60
Total undocumented current period			<u>\$ 1,561</u>
Total			<u><u>\$ 2,618</u></u>

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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, 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 evidence the propriety of all financial transactions.

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

Effect: Lack of supporting documentation, such as invoices, 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 continued 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 again 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 subsequent to the period under review, on December 21, 2013, the relief association received reimbursement from the affiliated fire company in the amount of \$1,057 for the undocumented expenditures made in the prior audit period and an additional \$1,361 for undocumented expenditures made during the current audit period. In addition, the relief association also provided adequate documentation to support the \$200 expenditure to a training vendor paid on February 14, 2012.

Auditor's Conclusion: It appears the relief association has complied with the finding

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

recommendation. Compliance will be subject to verification through our next audit.

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation - Failure To Maintain A Complete And Accurate Equipment Roster

Condition: As disclosed in the Status of Prior Findings section of this report, although an equipment roster of relief association owned equipment was provided during the current audit period, this roster did not include a majority of equipment purchases made in the prior audit period. The roster provided by the relief association only included equipment purchases totaling \$21,207 of the total \$146,828 expended on equipment during the prior audit period and also omitted an additional \$161,387 of equipment purchases made during the current audit period. 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 owned 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 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: Even though notified of this condition during our prior audit, relief association officials again, 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 continued 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.

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We again 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 subsequent to the period under review, on March 5, 2014, the relief association provided a revised record of equipment purchases in a detailed equipment roster for the relief association owned equipment. The roster also contained notations that a physical inventory was being performed.

Auditor's Conclusion: It appears the relief association has complied with the finding recommendation. Compliance will be subject to verification through our next audit.

Finding No. 3 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items that are not authorized by Act 118:

Date	Check No.	Description	Amount
02/10/2011	5232	Affiliated fire company-1989 Seagrave Fire Engine	\$30,035
02/10/2011	5232	Equipment Vendor 2004 Chevrolet Suburban	11,654
01/27/2011	5231	Maintenance on 1989 Seagrave Fire Engine	9,000
Total unauthorized expenditures			<u>\$50,689</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1, 11, 15) states:

The funds of any volunteer firefighters' relief association may be spent:

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

Costs associated with the purchase of two vehicles titled exclusively in the affiliated fire organization's name and maintenance on such vehicles do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials were unaware that the aforementioned expenditures were not authorized by Act 118

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118.

Recommendation: We recommend the relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) to aid them in determining the propriety of 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 subsequent to the period under review, on December 21, 2013, the relief association received reimbursement from the affiliated fire company in the amount of \$11,654 for the 2004 Chevrolet Suburban. In addition, the 1989 Seagraves fire engine was re-titled in the name of the relief association which also made the expenditure for the maintenance of such engine an authorized expenditure.

Auditor's Conclusion: It appears the relief association has complied with the finding recommendation. Compliance will be subject to verification through our next audit.

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: Relief association officials did not maintain a complete and accurate roster of relief association members. The roster provided lacked addresses and membership dates for 23 active members.

Criteria: Relief association's officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member;
- Members' mailing addresses;
- Dates of births;
- Dates of memberships; and
- Membership classifications.

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: Relief association officials were unaware that they should maintain a comprehensive roster of relief association members.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. 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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Scope Limitation

The Adams Area Volunteer Firefighters' Relief Association (VFRA) investment balance reported as \$180,451, as of December 31, 2012, could not be confirmed. Requests for an independent confirmation of the investment balance were made on November 19, 2013 and December 24, 2013, respectively, to the financial institution from which the VFRA purchased the investment. While the VFRA provided a financial institution statement, the financial institution failed to provide an independent confirmation of the investment balance.

Act 118 at 35 Pa.C.S. § 7418(a) provides that the Department 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."

Statement of Auditing Standards (SAS) No. 106 requires auditors to request independent confirmations of investment balances directly from the financial institution from which the VFRA purchased the investment.

Even though we made several requests, a confirmation of this account's investment balance was not provided by the respective financial institution. Our inability to confirm the VFRA's total investment balance constitutes a scope limitation on our audit, as this scope limitation prevented us from determining the fair value of the VFRA's investment balance reported at \$180,451, as of December 31, 2012.

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2011 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	\$ 26,750
Death benefits	1,000
Relief benefits	521
Tokens of sympathy and goodwill	170
Total Benefit Services	\$ 28,441
Fire Services:	
Equipment purchased	\$ 161,387
Equipment maintenance	56,244
Training expenses	13,697
Total Fire Services	\$ 231,328
Administrative Services:	
Other administrative expenses	\$ 543
Total Investments Purchased	\$ 110,000
Other Expenditures:	
Principal payments on lease-financing	\$ 23,251
Interest payments on lease-financing	2,351
Undocumented Expenditures	1,561
Total Other Expenditures	\$ 27,163

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Adams Area Volunteer Firefighters' Relief Association Governing Body:

Mr. Jeffery A. Liberatore	President
Mr. Robert H. Lytle, Jr.	Vice President
Ms. Nancy J. McCormick	Secretary
Mr. Joseph Bauer	Treasurer

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report.

Ms. Janet L. Lubbert Adams Township	Secretary
Ms. Denise Smiley Mars Borough	Secretary
Mr. Thomas B. Smith Seven Fields Borough	Secretary
Ms. Anne Squire Valencia Borough	Secretary

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.