



**COLWYN BOROUGH FIRE COMPANY
RELIEF ASSOCIATION**

DELAWARE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

AUGUST 31, 2009 TO DECEMBER 31, 2011

RELEASED DECEMBER 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Rufus Stokes, President
COLWYN BOROUGH VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Delaware County

We have conducted a compliance audit of the Colwyn Borough 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 August 31, 2009 to December 31, 2011.

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 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 Colwyn Borough 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 Colwyn Borough Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Colwyn Borough Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2011, 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 August 31, 2009 to December 31, 2011, found the Colwyn Borough Volunteer Firefighters' Relief Association, in all significant respects, received 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 Colwyn Borough Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$489 and no investments.

Finding No. 1 – Untimely Receipt of State Aid

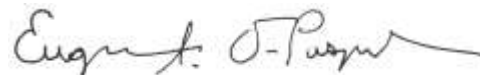
Finding No. 2 – Failure to Maintain Surety (Fidelity) Bond Coverage

Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 4 – Inadequate Internal Controls

Finding No. 5 – Failure to Maintain a Complete and Accurate Membership Roster

The contents of this report were discussed with the management of the Colwyn Borough Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report.



EUGENE A. DEPASQUALE
Auditor General

June 27, 2012, except for
Finding No. 1, for which the date
is April 13, 2013 and Finding No. 3,
for which the date is July 26, 2012.

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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 Colwyn Borough Fire Company Relief Association, herein referred to as Colwyn Borough 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 Colwyn Borough Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2008*</u>	<u>2009</u>	<u>2010</u>	<u>2011*</u>
Colwyn Borough	Delaware	\$11,284	\$10,299	\$11,593	\$18,229

*The relief association did not timely receive its 2009 and 2011 state aid allocations from Colwyn Borough. See Finding No. 1 in the Findings and Recommendations section of this report for more details.

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

Colwyn Borough Fire Company

COLWYN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Untimely Receipt of State Aid

Condition: The Colwyn Borough failed to forward the 2008 and 2011 state aid allocations to the volunteer firefighters' relief association within 60 days of receipt, which resulted in the untimely deposits of the state aid into the relief association's account.

Year	Municipality	Amount	Date Municipality Received Allocation	Date Municipality Distributed Aid	Deposit Date
2008	Colwyn Borough	\$11,284	09/19/08	08/26/09	08/31/09
2011	Colwyn Borough	\$18,229	09/26/11	03/02/12	03/05/12

Criteria: The municipal secretary is required to forward the tax allocation to the volunteer firefighters' relief association within 60 days of receipt, as required by Section 706 (b)(c) of Act 205 of December 18, 1984, (P.L. 1005, No. 205). Furthermore, pursuant to this provision of Act 205, relief association officials are required to monitor the municipality's distribution of state aid allocations to ensure the timely receipt of its respective state aid allocation checks.

Cause: In both 2008 and 2011, relief association officials failed to monitor the municipality's distribution of state aid allocations.

The Colwyn Borough municipal secretary distributed the 2008 foreign fire insurance tax on August 26, 2009 to the relief association 11 months after receiving the allocation on September 19, 2008. Upon receipt, the Colwyn Borough Volunteer Firefighters' Relief Association officials deposited the state aid allocation check into its account on August 31, 2009.

The Colwyn Borough municipal secretary distributed the 2011 foreign fire insurance tax allocation to the relief association on March 2, 2012, more than five months after the receipt. The Colwyn Volunteer Firefighters' Relief Association deposited the state aid into their account on March 5, 2012. However, it is the relief association's responsibility to monitor receipt of state aid.

Effect: As a result of the state aid not being timely received and deposited, funds were not available, as soon as they should have been, to pay general operating expenses or for investment purposes.

Recommendation: We recommend the relief association officials monitor the municipality's distribution of state aid allocations to ensure that the allocation is distributed to the relief association within 60 days of the date of receipt. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

COLWYN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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.

COLWYN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Failure to Maintain Surety (Fidelity) Bond Coverage

Condition: The relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118.

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.

Cause: Relief association officials were unaware of the Act 118 provision requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer.

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

However, subsequent to the field work completion date for this audit, on April 13, 2013, the relief association purchased sufficient Surety (Fidelity) bond coverage on its authorized disbursing officer.

Recommendation: We recommend that the relief association officials continue to maintain sufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required by Act 118. 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.

COLWYN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials failed to maintain a complete and accurate roster of equipment owned by the relief association and perform annual physical inventories of relief association 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: 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.

However, subsequent to the field work completion date for this audit, on July 26, 2012, the relief association submitted a complete roster of relief association owned 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.

COLWYN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – (Continued)

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.

COLWYN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 4 – Inadequate Internal Controls

Condition: The relief association has failed to establish adequate internal controls. The following significant internal control weaknesses existed during the current audit period:

- Original bank statements were not maintained. Copies were obtained for the audit;
- Membership meetings were not held;
- Invoices to support expenditures were not maintained;
- Relief association bylaws were not adopted;
- An adequate financial record-keeping system was not utilized; and
- A roster of equipment was not maintained.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

... must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

Furthermore, prudent business practice dictates that:

- Bank statements should be maintained;
- Meetings should be conducted and minutes should be maintained;
- Invoices should be maintained to support the validity of all expenditures;
- Bylaws should be adopted and adhered to;
- An adequate financial record-keeping system should be utilized; and
- A roster of all relief association equipment should be maintained.

Cause: The relief association failed to establish adequate internal controls to ensure the propriety of expenditures and proper documentation of relief association transactions. The relief association officials were unaware of the relief association's ineffective internal controls.

Effect: The failure to establish adequate internal controls prevented the relief association from adequately safeguarding its assets and prevented verification as to whether relief association business was presented before the membership for discussion and approval. Furthermore, the lack of effective internal controls places the relief association's funds at greater risk for misappropriation.

COLWYN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 4 – (Continued)

Recommendation: We recommend the relief association officials adopt effective internal control procedures to ensure the following:

- Original bank statements are maintained;
- Membership meetings are held as required by relief association bylaws and Act 118;
- Invoices evidencing expenditures are maintained;
- Relief Association by-laws are adopted;
- A financial record-keeping system is established; and
- An equipment roster is be maintained.

For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION.

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.

COLWYN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 5 – Failure to Maintain a Complete and Accurate Membership Roster

Condition: The relief association officials failed to maintain a complete and accurate roster of relief association members. While a roster was provided, it was the membership roster of the affiliated fire company.

Criteria: Relief association 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. The relief association officials provided the affiliated fire company's membership roster which included the names of 58 members; however, relief association officials admitted their membership consists of approximately 14 members.

Effect: The relief association's 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 compile and maintain a complete and accurate roster of the relief association's membership. For additional 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.

COLWYN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD AUGUST 31, 2009 TO DECEMBER 31, 2011

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:

Fire Services:		
Equipment purchased	\$	2,144
Equipment maintenance		284
Training expenses		40
Total Fire Services	\$	<u>2,468</u>

COLWYN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Colwyn Borough Volunteer Firefighters' Relief Association Governing Body:

Mr. Rufus Stokes, President

Ms. Lauren Cellini, Treasurer

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

Ms. Marlene Walden, Secretary
Colwyn Borough

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.