



**FAIRFIELD HOSE COMPANY FIREFIGHTERS RELIEF ASSOCIATION
OF THE COMMONWEALTH OF PENNSYLVANIA**

HEREIN REFERRED TO AS:

FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

ERIE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006 TO DECEMBER 31, 2008



CONTENTS

Background.....	1
Letter From the Auditor General	3
Status of Prior Findings	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster	6
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure to Comply With Terms of Loan Agreement.....	7
Finding No. 3 – Undocumented Expenditures.....	8
Finding No. 4 – Unsecured Loan and Inadequate Signature Authority.....	10
Accompanying Expenditure Information	11
Report Distribution List	13



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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), 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 Fairfield 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 84 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 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 84, 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 Fairfield Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Harborcreek Township	Erie	\$33,652	\$33,826	\$35,026

BACKGROUND (Continued)

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

Fairfield Hose Company

Mr. John Maloney, President
FAIRFIELD VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Erie County

We have conducted a compliance audit of the Fairfield 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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 *et seq.* (commonly referred to as Act 84), for the period January 1, 2006 to December 31, 2008.

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 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 Fairfield Volunteer Firefighters' Relief Association's administration of state aid and accumulated 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 Fairfield Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Fairfield Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2008, 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, 2006 to December 31, 2008, found the Fairfield Volunteer Firefighters' Relief Association failed to 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, in all significant respects, the Fairfield Volunteer Firefighters' Relief Association received and expended funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed in detail in the Findings and Recommendations section of this report. The results of our tests also indicated the Fairfield Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$139,433 and an investment balance with a fair value of \$157,223.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Comply With Terms of Loan Agreement

Finding No. 3 – Undocumented Expenditures

Finding No. 4 – Unsecured Loan and Inadequate Signature Authority

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

May 7, 2010

JACK WAGNER
Auditor General

FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Fairfield Volunteer Firefighters' Relief Association has not complied with the prior audit findings. These issues are listed below and further discussed in the Findings and Recommendations section of this report:

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

- Noncompliance With Prior Audit Recommendation –
Failure to Comply With Terms of Loan Agreement

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.

FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials, again, did not maintain a complete and accurate roster of equipment owned by the relief association. During our current audit, a roster of relief association owned equipment was provided. However, the roster did not include all equipment purchased during, or subsequent to, the period under review.

Criteria: 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 fixed assets. A cumulative equipment roster of all relief association equipment should include the following:

- Type of equipment purchased;
- Date of purchase;
- Unit cost;
- Name of supplier;
- Serial number, if applicable;
- Current location of item;
- Final disposition of sold or damaged equipment; and
- Evidence of the results of the annual physical inventory.

Furthermore, sound business practice requires the performance of an annual physical inventory of all relief association owned equipment.

Cause: While notified of this condition during our prior two audits, relief association officials, again, failed to establish adequate internal control procedures over fixed assets that require 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 fixed assets prevents adequate accountability for, and safeguarding of, relief association fixed assets.

Recommendation: We again recommend the relief association officials ensure a cumulative equipment roster is maintained for all relief association owned equipment. Furthermore, the relief association should ensure they perform an annual physical inventory of all operable equipment and that the condition of the physical 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 and indicated they will take action to comply with the recommendation.

FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Comply With Terms of Loan Agreement

Condition: The relief association officials, again, did not receive payments on a loan to the Fairfield Hose Company. On April 5, 2004, the Fairfield Hose Company borrowed \$54,225.56 from the relief association to purchase a rescue vehicle. Our prior audit report cited the relief association for not collecting \$1,273 of delinquent interest payments from the fire company. For the current audit period, the relief association was owed an additional \$1,184 in delinquent interest payments.

Criteria: The terms of the loan agreement state that payments of \$717 will be due from the fire company to the relief association, on a monthly basis, beginning on March 14, 2004, and ending on November 14, 2010. The interest rate was three percent.

Cause: While notified of this condition during our prior audit, the relief association, again, failed to monitor loan payments and take possession of the vehicle, since they were the lien holder.

Effect: Due to the relief association not receiving the scheduled loan payments, funds were unavailable for general operating expenses or for investment purposes. In addition, the receipt of late payments precludes the relief association from earning the stated interest rate on the loan. Furthermore, not aggressively pursuing delinquent payments increases the likelihood that the payments will become uncollectable.

As a result of our prior and current audits, the relief association was paid the \$2,457 total delinquent interest due as follows: a \$916 reimbursement from the Fairfield Hose Company on May 18, 2006, and an additional \$1,541 reimbursement on May 17, 2010.

Recommendation: We again recommend that the relief association monitor future loan payments to ensure all are received in accordance with the loan agreement. Also, we recommend the relief association follow the terms of a loan agreement if the borrower defaults on the loan. 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.

FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for \$1,353 in relief association expenditures. Invoices were not found for \$72 in relief benefits and \$50 in administrative costs. The remaining undocumented expenditures were for training, which were not supported by registration forms or invoices, and training certificates or written proof of training completion.

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
02/18/06	657	Relief benefits	\$ 71.88
06/07/06	667	Training	72.16
09/11/06	677	Training	100.00
10/09/06	681	Training	33.62
02/14/07	706	Administrative	49.76
04/17/07	662	Training	135.00
08/11/08	779	Training	285.00
09/04/08	782	Training	438.00
09/08/08	784	Training	145.00
11/12/08	796	Training	22.56
Total			<u>\$ 1,352.98</u>

Criteria: Act 84 at 53 P.S. § 8507(a) states, in part:

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

Without adequate supporting documentation, such as invoices, this department is unable to determine if the relief association funds were expended for purposes authorized by Act 84. Furthermore, good business practices would require 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 supporting documentation is maintained for all expenditures.

FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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 84 at 53 P.S. § 8506(e). In addition, the failure to maintain adequate 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 determine the validity of the expenditures or that the relief association be reimbursed \$1,353 for the undocumented expenditures. We also recommend that the relief association officials ensure supporting documentation is maintained 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.

FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Unsecured Loan and Inadequate Signature Authority

Condition: On November 6, 2008, the relief association made an unsecured loan to a married couple who are members of the relief association, in the amount of \$1,688. In addition, the signature of only one relief association officer was used to execute the loan agreement with the relief association members, even though the signatures of at least two relief association officers are required.

Criteria: Act 84 at 53 P.S. § 8506(c)(3) requires that loans be:

. . . secured by assets of the [fire] company having capital value equal to at least one hundred fifty percent of the amount of the obligation at the time it is made, and is subject to provisions which will amortize such loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least equal to one hundred fifty percent of the balance remaining due.

In addition, Act 84 at 53 P.S. § 8505(c) states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required in order to bind the association by formal contract or to issue any negotiable instrument.

Cause: Relief association officials were unaware that the loan to the members must be secured to ensure compliance with Act 84 provisions and failed to abide by their own bylaws and the Act 84 provision, which requires the signature of at least two officers in order to bind the relief association by a formal contract.

Effect: Failure to obtain adequate security for the loan places the investment at greater risk. In addition, as a result of the relief association not obtaining two signatures on the loan agreement, assets were placed at greater risk of misappropriation.

Recommendation: We recommend the relief association amend the written loan agreement to provide adequate security for the relief association's investment, as required by Act 84 at 53 P.S. § 8506(c)(3). We also recommend the relief association officials require the signatures of at least two relief association officers, as defined by Act 84. If such action is not taken, we recommend that the loan be immediately liquidated. 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.

FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2008

Act 84 at 53 P.S. § 8502(1) states, in part, that:

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. Such an association may also serve other purposes, . . . provided only that adequate provisions be first made to serve its primary purpose. . . .

Act 84 at 53 P.S. § 8506, 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. 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	\$ 11,271
Relief benefits	2,337
Total Benefit Services	\$ 13,608
Fire Services:	
Equipment purchased	\$ 75,213
Training expenses	19,421
Total Fire Services	\$ 94,634
Administrative Services:	
Miscellaneous administrative expenses	\$ 244
Total Administrative Services	\$ 244
Total Investments Purchased	\$ 101,688
Other Expenditures:	
Undocumented expenditures	\$ 1,353
Total Other Expenditures	\$ 1,353



FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Fairfield Volunteer Firefighters' Relief Association Governing Body:

Mr. John Maloney, President

Mr. Trevor Pearson, Vice President

Ms. Jenelle Pohl, Secretary

Ms. Victoria Bell, Treasurer

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

Mr. Dean Pepicello, Secretary
Harborcreek Township

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.