



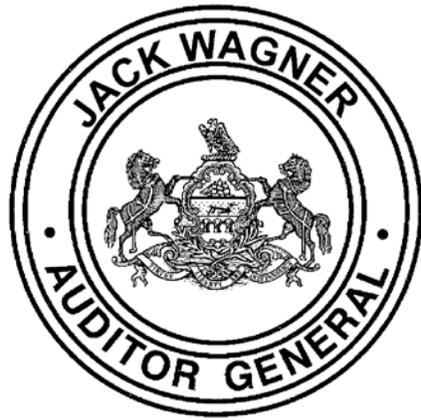
GRANDVIEW VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION

WESTMORELAND COUNTY

COMPLIANCE AUDIT REPORT

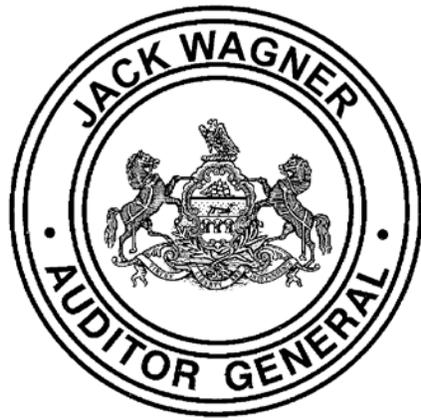
FOR THE PERIOD

JANUARY 1, 2008 TO DECEMBER 31, 2010



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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 Grandview Volunteer Fire Department Relief Association, herein referred to as Grandview 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 Grandview 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>
Penn Township	Westmoreland	\$28,523	\$25,290	\$28,465

BACKGROUND (Continued)

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

Grandview Volunteer Fire Department

Mr. Darryl Weightman, President
GRANDVIEW VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Westmoreland County

We have conducted a compliance audit of the Grandview 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, 2008 to December 31, 2010.

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 finding 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 Grandview 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 Grandview Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Grandview Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2010, 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, 2008 to December 31, 2010, found the Grandview Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Finding section of this report. In addition, the results of our audit found the Grandview 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 in detail in the Findings and Recommendations section of this report. The results of our tests also indicated the Grandview Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, had a cash balance of \$66,267 and no investments.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Insufficient Officer's Bond Coverage

Finding No. 2 – Misappropriation of Relief Association Funds

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

February 15, 2011

JACK WAGNER
Auditor General

GRANDVIEW VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Grandview Volunteer Firefighters' Relief Association has not complied with the following prior audit finding. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Insufficient Officer's Bond Coverage

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

GRANDVIEW VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Insufficient Officer's Bond Coverage

Condition: As cited during our prior audit report, the relief association, again, did not maintain a bond coverage in a sufficient amount to cover the authorized disbursing officer. The relief association's bond coverage was \$65,000; however, at several times during the current audit period the cash assets exceeded \$65,000.

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: While notified of this condition during our prior audit, relief association officials, again, failed to monitor their officer's bond coverage to ensure it was in compliance with Act 118 provisions.

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

However, on December 17, 2010, as a result of our audit, the relief association increased their bond coverage to \$75,000, which is a sufficient amount.

Recommendation: We, again, recommend the relief association monitor its officer's bond coverage to ensure that a performance bond sufficiently covers the authorizing disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the officer's bond coverage to an amount greater than the expected maximum balance of cash assets, or by decreasing the cash assets to an amount anticipated to remain below the coverage amount. Relief association officials should monitor the cash balance to ensure that unexpected events affecting current funds do not again result in an insufficient officer's bond coverage. 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.

GRANDVIEW VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Misappropriation of Relief Association Funds

Condition: During the current audit period, the relief association's treasurer misappropriated a total of \$2,300 of relief association funds. The treasurer perpetrated the thefts by making unauthorized relief association checks payable to himself, forging the second required signature on these checks. The forged checks were identified by an employee of the relief association's bank who informed the relief association's secretary who, in turn, started an investigation. The treasurer admitted to using the funds for his own personal use. Subsequent to the audit period, relief association officials suspended the treasurer on January 10, 2011. The former treasurer was eventually charged with various theft related charges and arrested on January 17, 2011. The table below details the misappropriation:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
06/09/10	118	Former relief association treasurer	\$ 450
06/13/10	120	Former relief association treasurer	350
06/20/10	119	Former relief association treasurer	200
06/28/10	117	Former relief association treasurer	400
09/20/10	540	Former relief association treasurer	200
12/24/10	124	Former relief association treasurer	300
12/26/10	123	Former relief association treasurer	400
Total			<u>\$ 2,300</u>

Furthermore, subsequent to the audit period, on January 14, 2011, check number 126, in the amount of \$289, was made payable to, and cashed by, the former relief association treasurer, increasing total misappropriated funds to \$2,589.

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.

GRANDVIEW VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Relief association officials failed to establish adequate internal control procedures to safeguard its assets. The treasurer controlled all aspects of financial related activities including maintaining the accounting records, making deposits, and issuing and co-signing checks.

Effect: The failure to establish adequate internal controls resulted in the misappropriation of assets and therefore, relief association funds were not available for authorized purposes.

Subsequent to the audit period, on March 24, 2011, the former treasurer admitted the theft and made restitution to the relief association totaling \$2,590; the relief association deposited the restitution on the same date and the criminal charges were withdrawn.

Recommendation: We recommend the relief association officials establish adequate internal control procedures to prevent the misappropriation of funds from occurring again in the future. Another relief association officer, other than the treasurer, should timely perform monthly bank reconciliations. 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.

GRANDVIEW VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2010

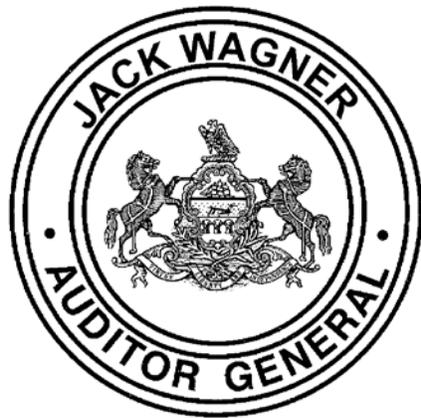
Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The 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	\$ 8,928
Tokens of sympathy and goodwill	505
Total Benefit Services	\$ 9,433
Fire Services:	
Equipment purchased	\$ 70,756
Equipment maintenance	12,396
Training expenses	2,571
Total Fire Services	\$ 85,723
Administrative Services:	
Miscellaneous administrative expenses	\$ 792
Total Administrative Services	\$ 792
Other Expenditures:	
Principal payments on loan	\$ 7,444
Interest payments on loan	506
Misappropriation of funds	2,300
Total Other Expenditures	\$ 10,250



GRANDVIEW VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Grandview Volunteer Firefighters' Relief Association Governing Body:

Mr. Darryl Weightman, President

Mr. Jason J. Dransart, Secretary

Mr. Matthew Dickson, Treasurer

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

Mr. Bruce R. Light, Secretary
Penn 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.