



VIGILANTE ENGINE COMPANY NO. 1 RELIEF
ASSOCIATION

BRADFORD COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008 TO DECEMBER 31, 2011

RELEASED JANUARY 2014

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Raymond McGuire, President
ROME - VIGILANTE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Bradford County

We have conducted a compliance audit of the Rome - Vigilante 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, 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 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 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 Rome - Vigilante 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 Rome - Vigilante Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Rome - Vigilante 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 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, 2011, found the Rome - Vigilante Volunteer Firefighters' Relief Association took appropriate corrective action to address the finding contained in our prior audit report and, in all significant respects, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed later in this report. The results of our tests also indicated the Rome - Vigilante Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$36,385 and an investment balance with a fair value of \$26,156.

Finding No. 1 – Inappropriate Presigning of Blank Checks

Finding No. 2 – Unauthorized Expenditure

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

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



EUGENE A. DEPASQUALE
Auditor General

July 15, 2013

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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 Vigilante Engine Company No. 1 Relief Association, herein referred to as Rome - Vigilante 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 Rome - Vigilante Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Orwell Township	Bradford	\$2,156	\$1,944	\$2,189	\$ 3,691
Rome Borough	Bradford	\$1,884	\$1,700	\$1,913	\$ 3,214
Rome Township	Bradford	\$6,980	\$6,321	\$7,115	\$11,098

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

Vigilante Engine Company No. 1

ROME - VIGILANTE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Rome - Vigilante Volunteer Firefighters' Relief Association has complied with the following prior audit finding and recommendation:

- Related Party Situation

By electing a new officer and eliminating the conflict of interest.

ROME - VIGILANTE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inappropriate Presigning of Blank Checks

Condition: A review of the relief association's checkbook, at the time of the audit engagement, revealed that 12 blank checks were presigned by one of the two relief association officers who are authorized to sign checks. The presigning of blank checks negates the relief association's internal control over the disbursement process.

Criteria: Prudent business practice dictates that the relief association have sufficient internal control procedures in place to prohibit the presigning of blank checks. Good internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to signing the checks.

Cause: The relief association's officers were aware of the necessity for two signatures but did not realize that applying the first signature prior to evaluating the propriety of the expenditure negated the relief association's internal controls over the disbursement process.

Effect: As a result of one of the two authorized relief association officers presigning the blank checks, assets were placed at greater risk of misappropriation since the officer who presigned the blank checks did not have the opportunity to verify the propriety of the expenditures.

Recommendation: We recommend that the practice of presigning blank checks be immediately discontinued. We also recommend that all of the relief association officers ensure that checks are signed and co-signed only after the propriety of the expenditures have been determined and the payees, dates, and amounts to be paid have been confirmed. 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.

ROME - VIGILANTE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Unauthorized Expenditure

Condition: The relief association expended \$156 for embroidered polo style dress shirts that are not authorized by Act 118.

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

Costs associated with the purchase of embroidered polo style dress shirts do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials were unaware that the expenditure for the embroidered polo style dress shirts was not authorized by Act 118.

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

Recommendation: We recommend the relief association be reimbursed \$156 for the unauthorized expenditure and that 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 indicated they will take action to comply with the recommendation.

ROME - VIGILANTE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

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

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was \$25,000; however, as of December 31, 2011, the relief association's cash assets totaled \$36,385.

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: Due to the increase in state aid distribution in 2011, the relief association's bond coverage was exceeded. The relief association lacked adequate procedures to effectively monitor the relief association's cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer was in compliance with Act 118 provisions.

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

Subsequent to the period under review, on December 18, 2012, the VFRA increased their bond coverage to \$50,000.

Recommendation: We recommend that relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. Relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

ROME - VIGILANTE VOLUNTEER FIREFIGHTERS' 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.

ROME - VIGILANTE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2008 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:

Benefit Services:	
Insurance premiums	\$ 4,867
Total Benefit Services	\$ 4,867
Fire Services:	
Equipment purchased	\$ 23,941
Equipment maintenance	3,940
Training expenses	438
Total Fire Services	\$ 28,319
Administrative Services:	
Other administrative expenses	\$ 258
Total Administrative Services	\$ 258

ROME - VIGILANTE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Rome - Vigilante Volunteer Firefighters' Relief Association Governing Body:

Mr. Raymond McGuire, President

Mr. Randy Rosenberger, Vice President

Ms. Tina Hottle, Secretary

Mr. Bill Gerould, Treasurer

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

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

Ms. Mia M. Beebe, Secretary
Orwell Township

Ms. Lori Kepner, Secretary
Rome Borough

Ms. Priscilla Keeney, Secretary
Rome Township

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