

COMPLIANCE AUDIT

Eastvale Volunteer Firefighters' Relief Association Beaver County, Pennsylvania For the Period January 1, 2011 to October 23, 2014

February 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. John P. Masson, Treasurer
EASTVALE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Beaver County

We have conducted a compliance audit of the former Eastvale 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 October 23, 2014.

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 former Eastvale 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 former Eastvale Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the former Eastvale Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of October 23, 2014, 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 October 23, 2014, found the former Eastvale Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the 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 former Eastvale Volunteer Firefighters' Relief Association, in all significant respects, 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 Recommendation –
Undocumented Expenditure

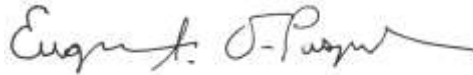
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure
To Maintain Surety (Fidelity) Bond Coverage

Finding No. 3 – Unauthorized Expenditure

The results of our tests also indicated the former Eastvale Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of October 23, 2014, had a cash balance of \$0 and no investments. However, effective October 23, 2014, the former Eastvale Volunteer Firefighters' Relief Association dissolved its organization and transferred all of its remaining monetary assets to the Beaver Falls Volunteer Firefighters' Relief Association. Therefore, no action of compliance is required.

The contents of this report were discussed with the management of the former Eastvale Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

January 9, 2015

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

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 former Eastvale 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)

However, the former Eastvale Volunteer Firefighters' Relief Association has not received state aid since 2008. In March 2009, Eastvale Borough notified the Eastvale Volunteer Fire Department that they were no longer authorized to respond to emergency calls within Eastvale Borough. As of October 23, 2014 the former Eastvale Volunteer Firefighters' Relief Association dissolved its organization.

The volunteer firefighters' relief association and the affiliated fire service organization were separate, legal entities. The former Eastvale Volunteer Firefighters' Relief Association was affiliated with the following fire service organization:

Eastvale Volunteer Fire Department

EASTVALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Undocumented Expenditures; and
- Failure To Maintain Surety (Fidelity) Bond Coverage

We are concerned with the former volunteer firefighters' relief association's failure to correct the previously reported audit findings. Since the former Eastvale Volunteer Firefighters' Relief Association dissolved its organization and consequently transferred its monetary assets to the Beaver Falls Volunteer Firefighters' Relief Association, Beaver Falls Volunteer Firefighters' Relief Association's management should strive to implement the recommendation and corrective action noted in this audit report.

EASTVALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditure

Condition: As cited in our prior audit report, the relief association was unable to provide adequate supporting documentation for expenditures amounting to \$1,871 made during the prior audit period. A similar condition occurred during the current audit period. The relief association again was unable to provide adequate supporting documentation for a \$269 expenditure disbursed on January 2, 2012 for a total of \$2,140 in undocumented expenditures.

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), 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 an invoice, 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: Even though notified of this condition during our prior audit, relief association officials again neglected to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as an invoice, made it impossible to determine if the expenditure was 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.

EASTVALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: Due to the dissolution of the former Eastvale Volunteer Firefighters' Relief Association, we are providing officials of the Beaver Falls Volunteer Firefighters' Relief Association with copies of this report so they are aware of conditions that were detected during the audit. We recommend the Beaver Falls Volunteer Firefighters' Relief Association's officials attempt to obtain supporting documentation for the above expenditures or seek reimbursement for \$2,140 for the undocumented expenditures. We also recommend Beaver Falls Volunteer Firefighters' Relief Association's 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.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Surety (Fidelity) Bond Coverage

Condition: As cited in our prior audit report, the relief association again failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118. The relief association's Surety (Fidelity) bond coverage expired on October 29, 2013. As of October 23, 2014, the relief association dissolved and transferred its remaining monetary assets to the Beaver Falls Volunteer Firefighters' Relief Association.

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: Even though notified of this condition during our prior audit, former relief association officials again neglected to comply with the Act 118 provisions requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer.

EASTVALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

Recommendation: Due to the dissolution of the former Eastvale Volunteer Firefighters' Relief Association, we are providing officials of the Beaver Falls Volunteer Firefighters' Relief Association with copies of this report so they are aware of conditions that were detected during the audit. We recommend the Beaver Falls Volunteer Firefighters' Relief Association's officials maintain 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.

Finding No. 3 – Unauthorized Expenditure

Condition: The relief association expended \$98 for a Columbia Gas bill for the affiliated fire company during the current audit period that is 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:

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 payment of a Columbia Gas bill for the affiliated fire company do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

EASTVALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Relief association officials were unaware that the expenditure for the Columbia Gas bill for the affiliated fire company 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: Due to the dissolution of the former Eastvale Volunteer Firefighters' Relief Association, we are providing officials of the Beaver Falls Volunteer Firefighters' Relief Association with copies of this report so they are aware of conditions that were detected during the audit. We recommend that relief association officials ensure the propriety of future expenditures in accordance as prescribed in Act 118 at 35 Pa.C.S. § 7416(f). 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.

EASTVALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2011 TO OCTOBER 23, 2014

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	\$ 200
Fire Services:	
Equipment maintenance	\$ 98
Administrative Services:	
Other administrative expenses	\$ 550
<i>*Transfer of monetary assets</i>	\$ 1,150
Other Expenditures:	
Undocumented expenditure	\$ 269

****Transfer of monetary assets***

Effective October 23, 2014, the Eastvale Volunteer Firefighters' Relief Association dissolved its organization and consequently, transferred all of its remaining monetary assets to the Beaver Falls Volunteer Firefighters' Relief Association.

EASTVALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Eastvale Volunteer Firefighters' Relief Association Governing Body:

Mr. John P. Masson Treasurer

Beaver Falls Volunteer Firefighters' Relief Association Governing Body:

Mr. Jason Hamilton President

Mr. William Reed Vice President

Mr. Fred Knight Treasurer

A report was also distributed to the following municipality:

Ms. Diane Izzo Secretary
Eastvale 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.