



**CHIPPEWA TOWNSHIP VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION**

**BEAVER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2007 TO DECEMBER 31, 2009**



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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 Chippewa Township 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 Chippewa Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Chippewa Township	Beaver	\$51,021	\$52,752	\$48,142

BACKGROUND (Continued)

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

Chippewa Township Volunteer Fire Department

Mr. Ron Sullivan, President  
CHIPPEWA TOWNSHIP VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Beaver County

We have conducted a compliance audit of the Chippewa Township 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, 2007 to December 31, 2009.

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 Chippewa Township 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 Chippewa Township Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Chippewa Township Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2009, 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, 2007 to December 31, 2009, found the Chippewa Township Volunteer Firefighters' Relief Association took appropriate corrective action to address three of the findings contained in our prior audit report. However, the Chippewa Township Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the two remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Chippewa Township 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 Chippewa Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$47,741 and an investment balance with a fair value of \$13,147.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Inadequate Internal Controls and Financial Record-Keeping System

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 3 – Undocumented Expenditures

Finding No. 4 – Inadequate Minutes of Meetings

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

May 14, 2010

JACK WAGNER  
Auditor General



CHIPPEWA TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Chippewa Township Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Undocumented Expenditures

By entering into an agreement and receiving reimbursement from the Chippewa Township Volunteer Fire Department for the undocumented expenditures that were made during the prior audit period. However, the VFRA made additional unauthorized expenditures during the current audit period, which is discussed in detail in Finding No. 3 in the Findings and Recommendations section of this report.

- Inappropriate Ownership of Assets

By registering all monetary assets under the relief association's federal tax identification number.

- Failure to Maintain Minutes of Meetings

By maintaining minutes of associations meetings.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Noncompliance With Prior Audit Recommendation –  
Inadequate Internal Controls and Financial Record-Keeping System
- Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

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.

CHIPPEWA TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Inadequate Internal Controls and Financial Record-Keeping System

Condition: As cited in our prior audit report, the relief association's financial record-keeping system did not provide the effective control over cash receipts, disbursements, and monetary assets, and does not meet the minimum requirements of maintaining financial records established by the department. The following are the noted deficiencies:

- A journal recording the receipts and disbursements of the relief association from January 1, 2007 to December 31, 2009, were provided; however, they did not include all relief receipt and expenditure activity;
- Ledgers recording the transactions of the relief association accounts from January 1, 2007 to December 31, 2009 were not provided;
- Documentation to support various expenditures was not available for examination at the time of the audit. See Finding No. 3;
- Documentation was not available to support deposits totaling \$3,605; and
- Bank reconciliations were not performed.

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.

In addition, an adequate system of accounting and record keeping is a prerequisite for sound administration of relief association assets. Furthermore, prudent business practice dictates that monthly bank reconciliations should be performed.

Cause: While notified of this condition during our prior audit, the relief association neglected to establish adequate internal controls and an adequate financial record-keeping system to ensure the propriety of expenditures and proper documentation of relief association transactions.

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations. Furthermore, the failure to establish adequate internal controls prevented the relief association from adequately safeguarding its assets. In addition, the lack of effective internal controls places the relief association funds at greater risk of misappropriation.

CHIPPEWA TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that the relief association establish adequate internal controls and maintain an adequate financial record-keeping system, which meets the minimum requirements of this department. Specifically, the relief association must maintain journals and ledgers that contain all financial related activity of the relief association. In addition, the relief association must maintain all invoices, receipt documents, and other documentation to support authorization to expend funds. Finally, monthly bank reconciliations should be performed and documented. 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.

CHIPPEWA TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in our prior audit report, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. The roster included equipment purchased from 1995 to 2009, but it did not include any equipment purchased during the years 2002 through 2005. In addition, several purchases made during the audit period were not included on the roster. Finally, the roster lacked serial numbers, final disposition, and evidence of an annual physical inventory.

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:

- Types of equipment purchased;
- Dates of purchases;
- Unit costs;
- Names of suppliers;
- Serial numbers, if applicable;
- Current locations of items;
- Final dispositions of sold or damaged equipment; and
- Evidence of the results of an 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 audit, relief association officials failed to establish adequate internal control procedures over fixed assets requiring the maintenance of a complete 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.

CHIPPEWA TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We again 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.

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.

CHIPPEWA TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
01/04/07	EFT	Bank	\$ 334
11/11/08	1483	Relief member	350
11/18/09	1556	Auto repair shop	500
Total			<u>\$ 1,184</u>

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.

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 118. 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.

Effect: Lack of supporting documentation, such as invoices, made it impossible to determine if the expenditures were made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). 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.

As a result of our audit and subsequent to the period under review, on February 12, 2010 and August 24, 2010, the relief association was reimbursed by the fire department, payments of \$793 and \$391 respectively, for the undocumented expenditures.

CHIPPEWA TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the relief association 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 and indicated they will take action to comply with the recommendation.

CHIPPEWA TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Inadequate Minutes of Meetings

Condition: The relief association failed to maintain adequate minutes of meetings as required by Act 118. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period.

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

. . . must provide for the taking and preserving of 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.

Cause: Relief association officials were unaware that maintaining adequate minutes of meetings was required by Act 118.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We recommend the relief association maintain adequate minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association. 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.



CHIPPEWA TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 31, 2009

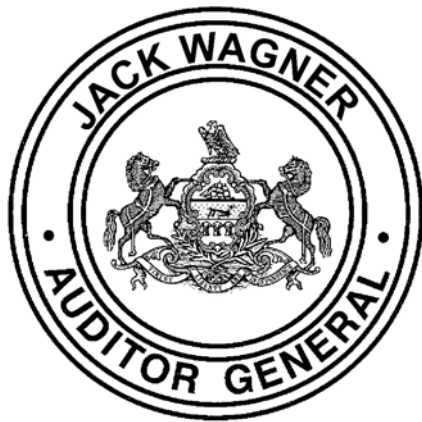
Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The 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	\$ 13,415
Relief benefits	5,623
Total Benefit Services	\$ 19,038
Fire Services:	
Equipment purchased	\$ 257,848
Equipment maintenance	37,375
Training expenses	12,114
Fire prevention materials	394
Total Fire Services	\$ 307,731
Administrative Services:	
Officer compensation	\$ 2,100
Other administrative expenses	1,797
Total Administrative Services	\$ 3,897
Total Investments Purchased	\$ 5,000
Other Expenditures:	
Principal payments on loans	\$ 56,855
Interest payments on loans	7,079
Undocumented Expenditures	1,184
Total Other Expenditures	\$ 65,118



CHIPPEWA TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Chippewa Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Ron Sullivan, President

Mr. Brian McCandless, Vice President

Mr. Kevin Whipple, Secretary

Mr. Jay Owens, Treasurer

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

Mr. Mark A. Taylor, Secretary  
Chippewa 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](http://www.auditorgen.state.pa.us).