



COOLBAUGH TOWNSHIP FIREMEN'S RELIEF ASSOCIATION

MONROE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 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 Coolbaugh Township Firemen's Relief Association, herein referred to as Coolbaugh 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 Coolbaugh Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>
Coolbaugh Township	Monroe	\$118,792	\$133,707

BACKGROUND (Continued)

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

Coolbaugh Township Volunteer Fire Company

Mr. Paul Denico, President
COOLBAUGH TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Monroe County

We have conducted a compliance audit of the Coolbaugh 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, 2009 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 Coolbaugh 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 Coolbaugh 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 Coolbaugh Township 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, 2009 to December 31, 2010, found the Coolbaugh Township 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 Coolbaugh 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 Coolbaugh Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, had a cash balance reported at \$180,663 and an investment balance reported at \$119,446. However, we were unable to obtain an independent confirmation of an account balance included in the relief association's reported investment balance. As a result of our inability to obtain independent confirmation of this account balance a scope limitation on our audit exits, which prevented us from determining the fair value of Coolbaugh Township Volunteer Firefighters' Relief Association's investment balance. This issue is detailed in Finding No. 2 in the Findings and Recommendations section of this report.

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

Finding No. 2 – Scope Limitation

We also noted another matter that has been included in the following observation and detailed in the Observation section of this report.

Observation – Diversification of Investments

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

June 21, 2011

JACK WAGNER
Auditor General

COOLBAUGH TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Coolbaugh Township 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 –
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 finding. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

COOLBAUGH TOWNSHIP 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: As cited in our prior audit report, the relief association officials, again, failed to maintain a complete and accurate roster of equipment owned by the relief association. The relief association did not provide an equipment roster that includes the equipment items purchased during the current audit period. Equipment purchased in the prior and current audit period totaled \$216,137. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all of the relief association's fixed assets.

Criteria: Sound business practice dictates 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 purchase;
- Unit costs;
- Names of suppliers;
- Serial numbers, if applicable;
- Current locations of items;
- Final dispositions of sold or damaged equipment; and
- Evidence of the performance and results of an annual physical inventory.

Cause: While notified of this condition during our prior audit, relief association officials, again, failed to establish adequate internal control procedures over fixed assets requiring 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.

COOLBAUGH TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 (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.

COOLBAUGH TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Scope Limitation

Condition: We could not confirm \$2,858 of the Coolbaugh Township Volunteer Firefighters' Relief Association's (VFRA) investment balance reported at \$119,446 as of December 31, 2010. While we received confirmations of the relief association's cash account balance and the remaining investment balance of \$116,588, stocks valued at \$2,858 were not confirmed by the stockbroker. Two separate requests for independent confirmations of these account balances were made on May 19, 2011 and November 9, 2011 to the stockbroker where the VFRA held this stock account and purchased these stocks. While the VFRA provided dividend payment receipts showing numbers of stock shares owned, the stockbroker failed to provide independent confirmations of the account balances.

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) states, in part, that 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 . . . 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.

Generally Accepted Government Auditing Standards (GAGAS) Section No. 7.55 states, "Auditors must obtain sufficient appropriate evidence to provide a reasonable basis for their findings and conclusions." GAGAS Section No. 7.60(f) states, "Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence from management of the audited entity or others who have a direct interest in the audited entity."

Statement of Auditing Standards (SAS) No. 106 requires auditors to request independent confirmations of investment balances directly from the financial institution from which the VFRA purchased the investment.

Cause: The stockbroker failed to respond to our requests or confirmations.

Effect: Our inability to confirm the VFRA's total cash and investment balance constitutes a scope limitation on our audit, as this scope limitation prevented us from determining the fair value of the VFRA's investment balance reported at \$119,446, as of December 31, 2010.

Recommendation: We recommend the relief association instruct its stockbroker to provide timely conformation or consider withdrawing the relief association's funds and placing these funds with another stockbroker.

Management's Response: Relief association management understands the finding and will consider our recommendation.

COOLBAUGH TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Diversification of Investments

Within the parameters established by the Volunteer Firefighters' Relief Association Act¹, it is the responsibility of the volunteer firefighters' relief association to invest its funds in a proper and prudent manner.

As these investments typically provide an income stream to the relief association for annual operations, it is generally sensible not to invest all VFRA money in one asset or asset class that places the principal at risk. In fact, state law requires VFRA's to "reasonably diversify investments, unless the [VFRA] reasonably determines that it is in the interest of the beneficiaries not to diversify..."².

By diversifying investments, the VFRA can help preserve capital, increase liquidity and decrease volatility. Diversification means spreading one's money among different investments; asset allocation diversifies total investments among different investment classes, such as stocks, bonds, government securities, and cash equivalents.

As of December 31, 2010, the VFRA had \$96,251 (confirmed fair value) or 32% of the VFRA's cash and investments in stocks and mutual funds.

The VFRA management should periodically review its specific cash needs and investment goals and ensure that its investments are allocated and diversified to prudently meet those needs and goals.

¹ 53 P.S. § 8506(c)(1997). This provision incorporates the "prudent investor rule" of the Probate, Estates, and Fiduciaries Code, 20 Pa. C.S.A. §7201 et seq.

² 20 Pa. C.S.A. § 7204(a) (Supp. 2005).

COOLBAUGH TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 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	\$ 18,683
Relief benefits	1,350
Total Benefit Services	\$ 20,033
Fire Services:	
Equipment purchased	\$ 130,902
Equipment maintenance	63,989
Training expenses	23,036
Fire prevention materials	9,165
Total Fire Services	\$ 227,092
Administrative Services:	
Miscellaneous administrative expenses	\$ 7,217
Total Administrative Services	\$ 7,217
Total Investments Purchased:	\$ 20,000

COOLBAUGH TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Coolbaugh Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Paul Denico, President

Mr. Jay Rake, Vice President

Ms. Kristi Denico, Secretary

Mr. William Weimer, Jr., Treasurer

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

Ms. Linda Frutchey, Secretary
Coolbaugh 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.