



CRABTREE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

WESTMORELAND COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006 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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), 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 Crabtree Volunteer Firemen's Relief Association, herein referred to as Crabtree 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 84 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 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 84, 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 Crabtree Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Unity Township	Westmoreland	\$21,000	\$21,113	\$21,927	\$19,766

BACKGROUND (Continued)

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

Crabtree Volunteer Fire Department

Mr. William M. Watkins, President
CRABTREE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Westmoreland County

We have conducted a compliance audit of the Crabtree 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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 *et seq.* (commonly referred to as Act 84), for the period January 1, 2006 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 Crabtree Volunteer Firefighters' Relief Association's administration of state aid and accumulated 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 Crabtree Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Crabtree 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, 2006 to December 31, 2009, found, in all significant respects, the Crabtree Volunteer Firefighters' Relief Association took appropriate corrective action to address the findings contained in our prior audit report and received and expended state aid and accumulated 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 Crabtree Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2009, had a cash balance of \$12,970 and no investments.

Finding No. 1 – Misappropriation of Assets

Finding No. 2 – Unauthorized Expenditures

Finding No. 3 – Failure to Maintain Minutes of Meetings

Finding No. 4 – Inadequate Signatory Authority for the Disbursement of Funds

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

January 11, 2011

JACK WAGNER
Auditor General

CRABTREE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure to Maintain a Complete and Accurate Membership Roster

By maintaining a complete and accurate roster of the relief association's membership.

- Untimely Deposit of State Aid

By adopting internal control procedures to ensure the timely deposit of all income received.

- Inadequate Officer's Bond Coverage

By ensuring the disbursing officer is adequately covered by a faithful performance bond, as required by Act 84.

CRABTREE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Misappropriation of Assets

Condition: During the audit period, the former fire department and relief association treasurer wrote seven unauthorized relief association checks to the fire department, totaling \$52,441. Of this total, \$45,368 was used to cover and conceal his thefts of fire department funds, and \$7,073 was used for loan payments on a fire truck owned by the fire department which has been deemed an unauthorized expenditure (see Finding No. 2 in the Findings and Recommendations section of this report).

The former treasurer passed away on October 1, 2009, prior to the start of our current audit.

Criteria: Act 84 at 53 P.S. § 8507(a) states, in part:

The Department of the Auditor General shall have the power, and its duty shall be, to audit the accounts and records of every volunteer firefighters' relief association receiving any 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 amended, as far as may be necessary to satisfy the department that the money received was expended or is being expended for no purpose other than that authorized by this act.

In addition, Article 3, Section 3, of the relief association bylaws states, in part:

The treasurer shall keep account of all money belonging to the association and a shall not expend monies or enter into investment transactions without authorization of the membership.

Furthermore, Article 5, Section 1, of the relief association bylaws states:

Funds of this association shall not be expended for any purpose other than those authorized by the provisions of Act 84 and the association bylaws. All expenditures must be approved by a majority vote at an association meeting and duly recorded in the minutes.

In addition, prudent business practice dictates that the relief association shall have sufficient internal control procedures in place to ensure the propriety of all relief association expenditures. Such internal controls should include procedures to ensure the disbursement has been approved by the relief association membership and that the goods or services are received.

CRABTREE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Relief association officials failed to establish adequate internal control procedures to ensure the propriety of all relief association expenditures. The individual had complete control over the financial affairs of both the fire department and the relief association. Internal control weaknesses contributing to the misappropriation are discussed in Finding Nos. 3 and 4 in the Findings and Recommendations section of this report.

Effect: The failure to establish adequate internal controls increased the likelihood for misappropriated assets and; therefore, relief association funds were not available for authorized purposes.

As a result of our audit, on October 26, 2010, the relief association was reimbursed \$25,915 from its bond company. In addition, in lieu of the fire department reimbursing the relief association for the remaining amount owed, on November 9, 2010, the fire department transferred 100% ownership of a rescue vehicle valued at \$5,486 to the relief association; then on February 7, 2011, the fire department transferred 11.43% ownership (\$29,019) of a fire truck valued at \$253,880. The combined value of the relief association's ownership in these two vehicles is \$34,505, of which \$19,453 was allocated to cover the remaining balance of the reimbursement due for the \$45,368 theft of funds. The \$15,052 remaining combined value of the relief association's ownership in these two vehicles was applied as reimbursement for the unauthorized expenditures cited in Finding No. 2 of this report.

Recommendation: We recommend the relief association officials establish sufficient internal controls to ensure the propriety of all future relief association 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 presented at the audit exit conference and indicated they will take action to comply with the recommendation.

CRABTREE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items that are not authorized by Act 84:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
02/07/07	176	Repairs to fire department owned vehicle	\$ 6,445
02/07/07	178	Repairs to fire department owned vehicle	598
06/09/07	192	Repairs to fire department owned vehicle	587
10/05/07	194	License plates for personal vehicles	339
12/20/07	198	* Loan payment for fire truck	1,768
11/26/08	206	* Loan payment for fire truck	1,768
01/22/09	209	* Loan payment for fire truck	1,768
09/21/09	236	* Loan payment for fire truck	1,769
Total			<u>\$ 15,052</u>

* These checks were written to make the monthly loan payment on a fire truck owned by the fire department.

Criteria: Act 84 at 53 P.S. § 8506(e)(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 its affairs including legal fees and including but not by way of limitation the rental or purchase of offices, the payment of reasonable compensation of any needed employees, and the purchase of office equipment and supplies.

CRABTREE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Because the Department of the Auditor General is legislatively prohibited from giving pre-audit advice, an interagency agreement with the Department of Community and Economic Development (DCED) has been established whereby the DCED provides interpretation of Act 84 of 1968, the "Volunteer Firefighters' Relief Association Act." Repairs and loan payments for fire department owned vehicles and license plates for personal vehicles have been deemed by DCED to not qualify as allowable expenditures; consequently, these disbursements are not authorized under Act 84.

Cause: Relief association officials were unaware that the aforementioned expenditures were not authorized by Act 84.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 84.

As a result of our audit, as detailed in Finding No. 1 of this report, a portion (\$15,052) of the combined values of the two vehicles that were transferred by the fire company to the relief association was used to serve as reimbursement for these unauthorized expenditures.

Recommendation: We recommend the relief association officials become familiar with Act 84 at 53 P.S. § 8506(e) 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.

CRABTREE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure to Maintain Minutes of Meetings

Condition: The relief association did not maintain minutes of meetings as required by Act 84. The relief association bylaws require regular relief association meetings shall be held the 1st Monday of each month immediately following the fire department meeting. The order of business for meetings includes the reading of minutes of the previous meeting.

As a result of not maintaining meeting minutes, it was impossible to determine whether all of the financial-related transactions that occurred during the audit period were presented before the membership for approval.

Criteria: Act 84 at 53 P.S. § 8505(a) states, in part, that the relief association:

. . . must provide for the taking and preserving of minutes of all meetings, and the maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its financial affairs.

Cause: Relief association officials were unaware that maintaining minutes of meetings was required by Act 84.

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

Recommendation: We recommend relief association officials maintain a permanent record of all relief association meetings as required by Act 84. The minutes should include an adequate record 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.

CRABTREE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Inadequate Signatory Authority for the Disbursement of Funds

Condition: The signature of only one relief association officer was used to disburse relief association funds from a checking account, even though the signatures of at least two relief association officers are required. Specifically, we detected that 6 checks out of 55 drawn on the relief association's checking account during the current audit period only contained the signature of one officer.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required in order to bind the association by formal contract or to issue any negotiable instrument.

In addition, Article IV, Section 4.14 of the relief association bylaws states:

The signatures of at least two officer, one of whom shall be the treasurer, shall be required for the issuance of the corporation's checks, withdrawal from the savings account, redemption of any investment, or any other negotiable instrument issued by the corporation.

Cause: Even though the requirement is in their bylaws, relief association officials neglected to establish adequate internal control procedures, which ensure that the signatures of at least two officers, one of whom shall be the treasurer, are included on all negotiable instruments.

Effect: As a result of the relief association not obtaining two signatures for all disbursements, assets were placed at greater risk of misappropriation.

Recommendation: We recommend the relief association officials establish adequate internal control procedures that ensure that the signatures of at least two officers, one of whom shall be the treasurer, are included on all relief association negotiable instruments as defined by Act 84. 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.

CRABTREE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2009

Act 84 at 53 P.S. § 8502(1) states, in part, that:

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. Such an association may also serve other purposes, . . . provided only that adequate provisions be first made to serve its primary purpose. . . .

Act 84 at 53 P.S. § 8506, 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. 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	\$ 9,417
Total Benefit Services	\$ 9,417
Fire Services:	
Equipment purchased	\$ 26,561
Equipment maintenance	19,547
Training expenses	767
Total Fire Services	\$ 46,875
Administrative Services:	
Miscellaneous administrative expenses	\$ 272
Total Administrative Services	\$ 272
Other Expenditures:	
Undocumented expenditures	\$ 52,441
Total Other Expenditures	\$ 52,441

CRABTREE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Crabtree Volunteer Firefighters' Relief Association Governing Body:

Mr. William M. Watkins, President

Mr. Watson S. Smith, Jr., Secretary

Mr. Michael G. Kerila, Treasurer

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

Ms. Anita Ulishney, Secretary
Unity 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.