



ELLSWORTH VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

WASHINGTON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2011



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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 Ellsworth Volunteer Firemen's Relief Association, herein referred to as Ellsworth 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 Ellsworth Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Ellsworth Borough	Washington	\$4,317	\$4,859	\$7,042
North Bethlehem Township	Washington	\$3,353	\$3,774	\$5,501
Somerset Township	Washington	\$5,282	\$5,945	\$9,023

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

Ellsworth Volunteer Fire Company



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. Frank M. Faryna, President
ELLSWORTH VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Washington County

We have conducted a compliance audit of the Ellsworth 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, 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 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 Ellsworth 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 Ellsworth Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Ellsworth 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, 2009 to December 31, 2011, found the Ellsworth Volunteer Firefighters' Relief Association took appropriate corrective action to address four of the six findings contained in our prior audit report. However, the Ellsworth Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the 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 Ellsworth 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 Ellsworth Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$32,412 and no investments.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Surety (Fidelity) Bond Coverage

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Minutes of Meetings

Finding No. 3 – Undocumented Loan

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

March 20, 2012, except for
Findings Nos. 1 and 3, for
which the dates are April 2, 2012
and March 23, 2012, respectively.

EUGENE A. DEPASQUALE
Auditor General

ELLSWORTH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Misappropriation of Relief Association Assets

By receiving reimbursement on July 11, 2011, in the amount of \$3,702 that consists of \$3,256 for the relief association assets that were misappropriated during the prior audit period, and \$446 for the relief association assets that were misappropriated during the current audit period, from the Ellsworth Volunteer Fire Department. A finding was not included in our current audit report citing the relief association for the \$446 in relief association assets that were misappropriated during the current audit period since the relief association was fully reimbursed.

- Undocumented Expenditures

By receiving reimbursement on July 11, 2011, in the amount of \$1,829, from the Ellsworth Volunteer Fire Department for the undocumented expenditures made during the prior audit period. In addition, we did not detect any additional undocumented expenditures during the current audit period.

- Unauthorized Expenditures

By receiving reimbursement on July 11, 2011, in the amount of \$459, from the Ellsworth Volunteer Fire Department, for the unauthorized expenditures made during the prior audit period. In addition, we did not detect any additional unauthorized expenditures during the current audit period.

- Inadequate Record-Keeping and Internal Controls

By adopting sufficient record-keeping and internal control procedures to adequately safeguard relief association assets and ensuring the propriety of all relief association transactions.

ELLSWORTH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS (Continued)

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Ellsworth Volunteer Firefighters' Relief Association has not complied with two of the six 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 –
Failure to Maintain Officer's Bond Coverage

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain Minutes of Meetings

We are concerned with the volunteer firefighters' relief association's continued failure to adhere to our previously reported audit recommendations. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

ELLSWORTH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Surety (Fidelity) Bond Coverage

Condition: As cited in our prior audit report, the relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118. While the relief association obtained a Surety (Fidelity) bond policy with coverage up to \$25,000 on April 2, 2009, as of December 31, 2011, the relief association's cash assets totaled \$32,412.

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, relief association officials, again, neglected the Act 118 provisions requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer.

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

However, subsequent to the audit period, on April 2, 2012, the relief association increased its Surety (Fidelity) bond coverage to \$50,000, which is greater than its balance of cash assets.

Recommendation: We, again, recommend that the relief association officials continue to 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. Relief association officials should monitor the relief association's cash balance to ensure that unexpected events effecting current funds do not again result in insufficient Surety (Fidelity) bond coverage. 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.

ELLSWORTH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Minutes of Meetings

Condition: As cited in our two prior audit reports, the relief association, again, failed to maintain minutes of meetings as required by Act 118. While the relief association's bylaws call for monthly meetings, the relief association only maintained minutes for nine out of the thirty-six meetings required to be held during the current audit period. Furthermore, the 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 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.

Article II, Section 1, of the relief association's bylaws states, in part:

Regular meetings of this association will be held monthly.

Cause: While notified of this condition during our two prior audits, relief association officials, again, neglected to maintain minutes of meetings as 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, again, recommend relief association officials maintain a permanent record of all relief association meetings as required by Act 118. 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.

ELLSWORTH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – Undocumented Loan

Condition: On February 22, 2010, the relief association made a loan to the Ellsworth Volunteer Fire Company in the amount of \$1,000 without a formal written loan agreement.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(3) states:

All, or any part of the funds of a volunteer firefighters' relief association may be invested:

In any obligation of an incorporated fire company, provided that the obligation is: (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

In addition, good business practice requires such terms of the obligation be placed into a written loan agreement.

Cause: Relief association officials were unaware that the loan to the affiliated fire company must be documented to ensure compliance with Act 118 provisions.

Effect: Failure to adequately document the loan through a formal written agreement places the investment at greater risk.

However, subsequent to the audit period, on March 23, 2012, the relief association received reimbursement in the amount of \$1,000, from the Ellsworth Volunteer Fire Company, for the undocumented loan.

Recommendation: We recommend that in the future if any loans are issued, the relief association and fire company prepare a formal written loan agreement, signed by both parties, specifying the payment schedule and the interest rate. The loan agreement must also specifically identify the collateral to protect the investment as required by Act 118 at 35 Pa.C.S. § 7416(c)(3). If such action is not taken, we recommend that the loan be immediately liquidated. 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.

ELLSWORTH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 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	\$ 5,581
Total Benefit Services	\$ 5,581
Fire Services:	
Equipment purchased	\$ 8,577
Equipment maintenance	2,996
Training expenses	705
Total Fire Services	\$ 12,278
Administrative Services:	
Miscellaneous administrative expenses	\$ 752
Total Administrative Services	\$ 752
Total Investments Purchased:	\$ 1,000
Other Expenditures:	
Principal payments on lease-financing	\$ 8,083
Interest payments on lease-financing	2,674
Misappropriated funds	446
Total Other Expenditures	\$ 11,203

ELLSWORTH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Ellsworth Volunteer Firefighters' Relief Association Governing Body:

Mr. Frank M. Faryna, President

Mr. Thomas L. Pysh, Vice President

Mr. Rod Kushner, Secretary

Mr. John R. Nuccetelli, Treasurer

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

Ms. Lillian Bizet-Ross, Secretary
Ellsworth Borough

Mr. Russell A. Mowl, Secretary
North Bethlehem Township

Ms. Mary Ann Lobodinsky, Secretary
Somerset 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.