

“THE VOLUNTEER FIREMEN’S RELIEF ASSOCIATION OF ELLWOOD CITY, PA.”

LAWRENCE COUNTY

COMPLIANCE AUDIT REPORT

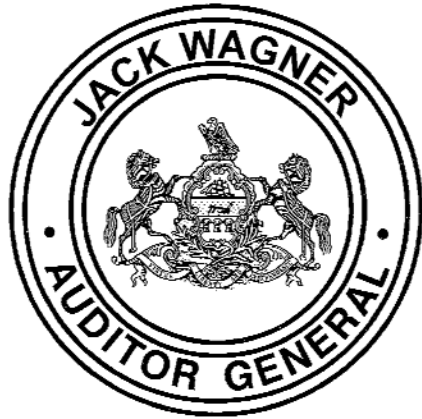
FOR THE PERIOD

JANUARY 1, 2008 TO DECEMBER 31, 2009



CONTENTS

Background.....	1
Letter From the Auditor General	3
Status of Prior Findings	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure to Obtain a Federal Tax Identification Number.....	6
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Relief Association Bylaws	7
Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster.....	8
Observation:	
Observation – Diversification of Investments	10
Accompanying Expenditure Information	11
Report Distribution List	13



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 Volunteer Firemen’s Relief Association of Ellwood City, PA.”, herein referred to as Ellwood City 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 Ellwood City Volunteer Firefighters’ Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2008</u>	<u>2009</u>
Ellwood City Borough	Lawrence	\$47,159	\$49,089

BACKGROUND (Continued)

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

Ellwood City Volunteer Fire Department

Mr. Edward Spurk, Jr., President
ELLWOOD CITY VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lawrence County

We have conducted a compliance audit of the Ellwood City 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, 2008 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 Ellwood City 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 Ellwood City Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Ellwood City 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, 2008 to December 31, 2009, found the Ellwood City 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 Ellwood City 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 Ellwood City Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$90,772 and an investment balance with a fair value of \$31,849.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Obtain a Federal Tax Identification Number

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Inadequate Relief Association Bylaws

Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster

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 Ellwood City Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

October 5, 2010

JACK WAGNER
Auditor General

ELLWOOD CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Ellwood City 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:

- Noncompliance With Prior Audit Recommendation – Failure to Obtain a Federal Tax Identification Number
- Noncompliance With Prior Audit Recommendation – Inadequate Relief Association Bylaws

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.

ELLWOOD CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Obtain a Federal Tax Identification Number

Condition: As cited in the three prior audit reports, the volunteer firefighters' relief association failed to comply with the Tax Equity and Fiscal Responsibility Act by not maintaining a federal tax identification number. The relief association is inappropriately using the fire service organization's federal tax identification number, although the fire service organization and the relief association are separate legal entities.

Criteria: All businesses, both profit and nonprofit, are required to obtain a federal tax identification number and provide this number to any financial institution where funds are earning interest. If their tax identification number is not provided, the financial institution is required to withhold 31 percent of interest earned and transmit these funds to the Internal Revenue Service, representing federal income taxes.

Cause: While notified of this condition during our three prior audits, the relief association, again, failed to take the appropriate steps in order to procure its own federal tax identification number.

Effect: Failure to comply with the Tax Equity and Fiscal Responsibility Act could cause the relief association to be penalized by the Internal Revenue Service, resulting in the loss of funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We, again, recommend the relief association immediately apply for its own federal tax identification number through the Internal Revenue Service, and furnish this number to its financial institutions. The relief association should also consider applying to the Internal Revenue Service for tax exempt status as a nonprofit corporation under Internal Revenue Code 501(c). 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.

ELLWOOD CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Inadequate Relief Association Bylaws

Condition: As cited in our prior audit report, the existing bylaws of the Ellwood City Volunteer Firefighters' Relief Association do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not address the requirement that one of the required signatures shall be that of the disbursing officer in order to bind the relief association by formal contract or issue any negotiable instrument.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3) states, that the relief association's bylaws shall:

- (3) Require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

Cause: While notified of this condition during our prior audit, relief association officials, again, neglected to amend the relief association bylaws to meet the bylaw provisions required by Act 118.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization. Although the disbursing officer's signature was present on all checks examined during the current audit, by not having this mandatory provision, as required by Act 118, formally defined in the relief association bylaws, the relief association's bylaws were not in compliance with Act 118 at 35 Pa.C.S. § 7415(c)(3) and its operating procedures are not properly authorized.

Recommendation: We, again, recommend that relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize the operating procedures of 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.

ELLWOOD CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials did not maintain a complete and accurate cumulative roster of equipment owned by the relief association. Although a roster was maintained for 2008, a roster was not maintained for all items purchased in 2009. In addition, the relief association failed to conduct a physical inventory in 2009.

Criteria: Sound business practice dictate 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: Relief association officials overrode internal control procedures over fixed assets requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment for the 2009 year.

Effect: The failure to properly record yearly 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 physical inventories of fixed assets annually prevents adequate accountability for, and safeguarding of, relief association fixed assets.

Recommendation: We recommend that each year the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs a physical inventory of all operable equipment for each year and that the completion of each inventory is sufficiently documented. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

ELLWOOD CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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.

ELLWOOD CITY 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, 2009, the VFRA had \$31,849 (fair value) or 26% of the VFRA's cash and investments in 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).

ELLWOOD CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2009

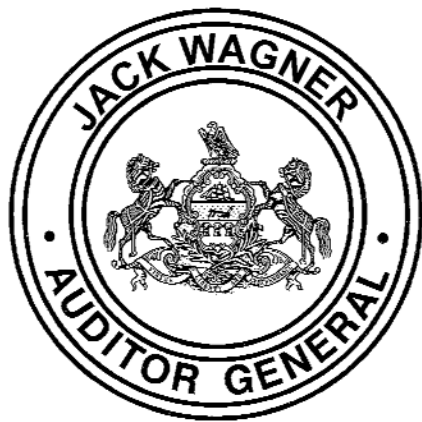
Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The 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	\$ 41,360
Tokens of sympathy and goodwill	166
Total Benefit Services	\$ 41,526
Fire Services:	
Equipment purchased	\$ 51,756
Equipment maintenance	4,697
Training expenses	1,998
Total Fire Services	\$ 58,451
Administrative Services:	
Officer compensation	\$ 1,750
Other administrative expenses	328
Total Administrative Services	\$ 2,078



ELLWOOD CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Ellwood City Volunteer Firefighters' Relief Association Governing Body:

Mr. Edward Spurk, Jr., President

Mr. Corey Wilson, Vice President

Mr. Jeffrey Magnifico, Secretary

Mr. Mike Pelliccioni, Treasurer

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

Ms. Linda M. List, Secretary
Ellwood City Borough

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.