



**MEDIA FIRE & HOOK & LADDER CO. NO. 1 RELIEF ASSOCIATION**

**DELAWARE 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 Media Fire & Hook & Ladder Co. No. 1 Relief Association, herein referred to as Media 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 Media 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>
Media Borough	Delaware	\$47,810	\$48,885	\$45,812

BACKGROUND (Continued)

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

Media Fire and Hook and Ladder Company No. 1

Mr. Scott Price, President  
MEDIA VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Delaware County

We have conducted a compliance audit of the Media 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 Media 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 Media Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Media 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 Media Volunteer Firefighters' Relief Association took appropriate corrective action to address three of the six findings contained in our prior audit report. However, the Media 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 Media Volunteer Firefighters' Relief Association did not, in all significant respects, receive and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, 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 Media Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$169,375 and an investment balance with a fair value of \$29,322.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Insufficient Officer's Bond Coverage

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Failure to Comply With the Tax Equity and Fiscal Responsibility Act

Finding No. 3 – Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

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

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

August 18, 2010

JACK WAGNER  
Auditor General



MEDIA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Media Volunteer Firefighters' Relief Association has complied with three of the six prior audit findings and recommendations:

- Inadequate Minutes of Meetings

By maintaining detailed minutes of all relief association meetings.

- Failure to Provide Adequate Supporting Documentation of Discretionary Relief Benefits

By transferring the financial responsibility of discretionary benefits to the Media Fire and Hook and Ladder Company No. 1.

- Unsecured Loan

By securing the fire service organization loan with a lien on two vehicles.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Media Volunteer Firefighters' Relief Association has not complied with three 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 – Inadequate Officer's Bond Coverage
- Noncompliance With Prior Audit Recommendation – Failure to Comply With the Tax Equity and Fiscal Responsibility Act
- 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.

MEDIA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Insufficient Officer's Bond Coverage

Condition: As cited in our prior audit report, the relief association, again, did not maintain a bond in a sufficient amount to cover the authorized disbursing officer. The relief association's bond coverage was \$150,000; however, as of December 31, 2009, the cash assets totaled \$169,375.

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: While notified of this condition during our prior audit, relief association officials, again, failed to monitor the cash balance to ensure the officer's bond coverage was in compliance with Act 118 provisions.

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

Recommendation: We again recommend the relief association ensure that a performance bond sufficiently covers the authorizing disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the officer's bond coverage to an amount greater than the expected maximum balance of cash assets, or by decreasing the cash assets to an amount anticipated to remain below the coverage amount. Relief association officials should monitor the cash balance to ensure that unexpected events affecting current funds do not again result in an insufficient officer's 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.

MEDIA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –

Failure to Comply With the Tax Equity and Fiscal Responsibility Act

Condition: As cited in our prior audit report, the relief association, again, failed to comply with the Tax Equity and Fiscal Responsibility Act by not furnishing its federal tax identification number to the financial institution in which they maintain funds. As a result of the relief association not furnishing the depository with its tax identification number, a total of \$843 of interest was withheld during the prior and current audit periods.

Criteria: All businesses, profit and nonprofit, are required to provide their tax identification number to any financial institution where funds are earning interest. If a 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.

Cause: While notified of this condition during our prior audit, relief association officials, again, neglected the requirement to provide their federal tax identification number to their financial institution.

Effect: The failure to comply with the Tax Equity and Fiscal Responsibility Act has caused the relief association to lose funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We again recommend the relief association immediately furnish the financial institution with its federal tax identification number and apply to the Internal Revenue Service for a refund of income previously withheld. 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.

MEDIA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in our prior three audit reports, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. Specifically, the equipment roster provided did not account for all the equipment purchased during the audit period. Furthermore, the current equipment roster did not contain all dates of purchase, unit costs, names of suppliers, serial numbers, and, location or final disposition to accurately identify equipment owned. 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. Equipment purchases during the prior and current audit periods total \$182,385.

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 three audit reports, 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.

MEDIA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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 immediately perform a physical inventory of all operable equipment and sufficiently document the inventory. In addition, relief association officials should ensure that all fixed asset purchases made since the end of the audit period, December 31, 2009, are included on the equipment roster and ensure that the equipment roster contains all the necessary fields as noted. 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.

MEDIA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

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

Condition: During the current audit engagement, we identified four checks out of 151 drawn on the relief association's checking account that only contained the signature of one officer, although two signatures are required, pursuant to Act 118 and the relief association bylaws. Issuing checks with the signature of only one officer negates the relief association's internal control over the disbursement process.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3) 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 to bind the association by formal contract or to issue a negotiable instrument.

In addition, Article 7, Section 1, of the relief association's bylaws states:

The signature of at least two (2) Officers, one of whom shall be the Treasurer shall be required for the issuance of relief association checks, withdrawal from the association savings account, the redemption of any Relief Association investment or any other negotiable instrument issued by the association.

Furthermore, prudent business practice dictates that the relief association have sufficient internal control procedures in place to ensure the signatures of at least two relief association officials are included on all negotiable instruments. Good internal control procedures require that checks be signed only after the propriety of the expenditures have been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contract, etc., prior to approving the checks.

Cause: Relief association officials neglected to establish adequate internal control procedures which require the signatures of at least two officers on all negotiable instruments.

Effect: As a result of the relief association officer issuing checks with only one signature, assets were placed at greater risk as expenditures were being made without a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk for errors occurring and going undetected, and reduces the risk of misappropriation.

MEDIA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Recommendation: We recommend the relief association officials establish adequate internal control procedures to 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 118. 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.

MEDIA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
POTENTIAL WITHHOLD OF STATE AID

Conditions of repeat findings, such as those reported in Finding Nos. 1, 2, and 3, may lead to a total withholding of state aid in the future unless those findings are corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Firefighters' Relief Association Audits, Room 316-D Finance Building, Harrisburg, PA 17120.



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

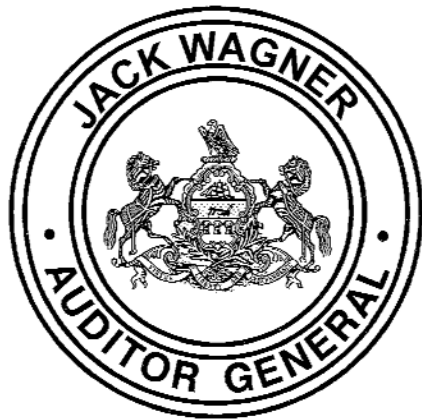
Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The 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	\$ 37,786
Relief benefits	12,605
Tokens of sympathy and goodwill	250
Total Benefit Services	\$ 50,641
Fire Services:	
Equipment purchased	\$ 34,739
Equipment maintenance	25,888
Training expenses	14,225
Total Fire Services	\$ 74,852
Administrative Services:	
Miscellaneous administrative expenses	7,425
Total Administrative Services	\$ 7,425



MEDIA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Media Volunteer Firefighters' Relief Association Governing Body:

Mr. Scott Price, President

Mr. Fred Cordova, Vice President

Ms. Cindy Bellace, Secretary

Mr. James Kilpatrick, Treasurer

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

Mr. Jeffrey A. Smith, Secretary  
Media 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](http://www.auditorgen.state.pa.us).